# Annual Report and Financial Statements

Year ended 31 December 2018

Registered number 05239285

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# Chairman's Statement

After the progress of 2017 the year under review was a challenging one, therefore it was crucially important and very encouraging that we received the IPPC Permit in April 2019.

The award of this permit, the additions to the board and the £1.1 million in new funding raised during the first part of 2019 gives grounds to be optimistic as the Company seeks to maximise the potential in Slovenia while assessing additional accretive projects in the region.

In November 2017 the Petišovci field was brought into export production but the Company was unable to immediately build on this success during 2018 due largely to the manner in which the Slovenian system has dealt with our environmental permit applications. The unpredictability of the process and the failure of officials to adhere to Slovenian and EU regulations and prescribed timescales, thwarted a successful outcome to the Strategic Review and has delayed further investment in our Slovenia project.

The award of the IPPC Permit in April 2019 gives the Board renewed confidence that the remaining permit will be issued in due course.

Given the difficulties in doing business in Slovenia, it is right that we return to the strategy of seeking to grow Ascent Resources plc ('Ascent' or 'the Company') outside of the country, leveraging our experience and relationships in the region. To that end we have begun assessing the opportunities presented in the Croatian Onshore Licensing Round. To facilitate a smooth process, the Croatian government introduced a new hydrocarbon law and is actively marketing the opportunities to foreign and domestic investors to encourage the deployment of private risk capital to develop the, already significant, Croatian energy industry. Such an approach makes Croatia an appealing destination for foreign investors.

In addition, we continue to review a number of other interesting opportunities in the Central European region where a combination of good geology, strong energy prices and well-defined regulatory regimes, create opportunities which Ascent is well positioned to benefit from.

The addition of John Buggenhagen and Louis Castro to the Board in February 2019 will support this strategy as we seek to grow Ascent into an established European Oil & Gas company.

I would like to also thank Nigel Moore and Clive Carver who provided years of valuable service to the Company. Both were instrumental in steering the Company through difficult times and to achieving first production in Slovenia in 2017, and we wish them both well for the future.

Dr Cameron Davies
Non-executive Chairman
10 May 2019

# Chief Executive's Review

While the period under review was a challenging one for the Company, as we went through the strategic review and suffered permitting delays, the period since the year end has seen several positive developments and we look forward to progress in 2019 as the Company executes the strategy of maximising our existing potential whilst growing in the region.

**Progress in 2019 to date**

**1. Corporate developments**

In January 2019 we strengthened the management team and board with the addition two experienced directors: John Buggenhagen, as Chief Operating Officer and Louis Castro as non-executive director and Chairman of the Audit Committee.

John is an astute, highly qualified geophysicist with extensive experience in the region and a track record of commercial oil and gas discoveries.

Louis has a wealth of City experience in investment banking and corporate broking, and also in growing successful AIM listed Oil & Gas companies.

**2. Operational developments**

In April 2019 we received confirmation of the IPPC Permit which is important for the future development of the project and demonstrates that permits can be obtained through the Slovenian system.

During April we also completed the renewal of the gas sales agreement, under which untreated gas is sold to INA in Croatia. The agreement has been extended for six months, to November 2019, and all parties will now work towards a fresh agreement for the following period. It is planned that, by then, the agreement can consider increased production volumes following the installation of compression equipment and, subject to permitting, the re-stimulation of our existing wells.

**3. Future plans**

In May we plan to conclude a contract for the purchase of the required compression equipment which should improve production from both wells and significantly extend the useful life of the current completions prior to any future re-stimulation.

By June we expect to have the results of the reprocessing of our existing 3D seismic data which will increase our understanding of the remaining oil and gas volumes in the shallow zones, and of the prospectivity of the deeper pre-Tertiary Triassic basement.

At the end of June, bids are due in the Croatian onshore licensing round where Ascent is currently reviewing the available blocks and talking to potential partners.

**4. Funding**

During the period post year end, we have also raised £1.1 million in equity from new and existing investors which will be used to support the Company as we develop Petišovci and progress new projects in the region.

**2018 review of the year**

The year under review was dominated by two key processes; the Strategic Review and Formal Sale Process, and the ongoing permit applications to further develop our Petišovci project in Slovenia.

**1. Strategic Review and Formal Sale Process**

The Strategic Review was initiated on 17 April 2018 with the intention of finding a strategic partner to support the Company as it seeks to realise the full potential of its Slovenian assets. The Review received significant interest with over

20 companies signing confidentiality agreements and participating in due diligence. The majority of those who engaged in discussions appreciated the value of the project but were put off by the unpredictability of the Slovenian permitting system.

On 6 December 2018 the Board halted the Strategic Review and Formal Sale Process after an intervention by the (then) Slovenian Environment Minister caused a further delay in the long overdue permitting decision.

**2. Permitting**

The Company was pursuing two permits necessary for the development of the project during the period under review:

- the IPPC Permit enables the partners to construct a processing plant to treat Slovenian gas to a standard suitable for the Slovenian national grid. This would allow the partners to receive a higher price for treated gas and allow Slovenians to benefit from the country's natural resources.
- the Well Permit is required to re-stimulate the existing operating wells to restore production to its full potential.

Since the end of the period, the IPPC Permit has been awarded and we have lodged an appeal against a decision by ARSO to further delay the Well Permit. Based on the strength of our legal arguments and the opinion of technical experts on the lack of significant environmental risk, we have good grounds to hope that an objective review of the facts by the new Environment Minister should result in a favourable decision.

**a. Environmental impact**

The stimulation process which the partners wish to carry out on Pg-10 and Pg-11A has been commonplace in Slovenia since 1956. It has been carried out on over 50 wells in the region since then, with the most recent operations being in 2011 on Pg-10 and Pg-11A. During this time there have been no adverse environmental impacts noted in the various studies which have taken place. It is therefore nothing new and attempts by opponents of the project to conflate the activities in Petišovci with North American shale projects are completely unfounded. ARSO's own decision was that the project does not equate to the EU definition of fracking but is more appropriately defined as low volume hydraulic stimulation which is significantly less impactful to the environment.

During the extensive preliminary screening process the partners have provided numerous additional reports and amendments to the initial application, and the level of detail already provided is now close to what would have been required for a full Environmental Impact Assessment ("EIA"). As part of its review ARSO has consulted six expert Slovenian government agencies, all of whom concluded that there was no requirement for an EIA as the project to re-stimulate the wells was not likely to have a significant impact on the environment.

**b. Background to the permitting application**

The preliminary screening application to re-stimulate our two existing wells, Pg-10 and Pg-11A, was first applied for in May 2017. Slovenian and EU law state that a permitting decision should be made within 90 days.

On 11 March 2019 the partners were advised that ARSO had decided that a full EIA would be required for the well permit.

The Company and its partners have filed an appeal against this manifestly unjust decision, which should be decided by the new Environment Minister.

**c. Benefits to Slovenia**

We continue to work to inform stakeholders in Slovenia and the general public on the expert opinions which conclude there is no significant environmental risk from the proposed development and at the same time state the clear benefits to the country from an environmental, economic and strategic perspective.

The development of Petišovci would support the Slovenian Environment Minister in lowering carbon emissions, as gas is a recognised transition fuel to a lower carbon economy. Electricity generation from natural gas creates less

than half of the emissions from other fossil fuels, especially coal. Slovenia currently generates around 20% of its electricity through burning coal and imports all of its gas requirement.

The Prekmurje region has a long history of oil and gas development which dates back to the 1940s. The first well stimulations were carried out on the field during the 1950s and, at its peak, the industry supported the employment of hundreds of people. The project continues to provide employment directly at Ascent and our partners and indirectly with the numerous companies who carry out work for the project. The benefits to the local and national economy from jobs and tax revenues will increase significantly if the project is permitted to develop by the politicians and special interest groups in Ljubljana.

Slovenia currently imports virtually all of its natural gas requirement from foreign countries. The Petišovci asset could provide a significant percentage of the country's annual natural gas consumption for the foreseeable future once the necessary permits are confirmed.

**Analysis of business performance**

**1. Financial performance**

- Revenue for 2018 was £1.9m more than double the revenues for 2017, the highest recorded revenue for the Company since 2011.
- Test production to local commercial consumers commenced in April 2017 and export production began in November 2017.
- At the same time administrative expenses reduced by £31,000 from £1,791,000 to £1,760,000. Administrative costs principally comprise staff costs, overheads and listing related expenses, with the reduction due to cost control.
- EBITDA was a loss of £589,000 reduced from the prior year EBITDA loss of £1,380,000 reflecting increased revenue and margin contribution from increased production and pricing.
- The loss for the year totalled £1,365,000 versus £1,966,000 in 2017, reflecting the factors above and reduced finance costs following the conversion of loan notes in the prior year.
- Operating cash flow was positive in 2018 for the first time since 2010 at £360,000 (2017: outflow of £2,079,000) principally reflecting improved operating results and reduction in receivables.
- Cash at the end of the period was £556k, including £180k (€200k) of restricted cash which is held on deposit against a bank guarantee.
- Borrowings at the end of the year were £44,000 (2017: 36,000), which relates to convertible loan notes of £49,000 due for redemption in November 2019 and accreted up to their redemption value.

| Financial KPI's | 2018 | 2017 | Variance |
|---|---|---|---|
| | £ 000s | £ 000s | £ 000s |
| Revenue | 1,942 | 814 | 1,128 |
| Administrative expenses | (1,760) | (1,791) | 31 |
| EBITDA | (589) | (1,380) | 791 |
| Operating cash flow | 360 | (2,079) | 2,439 |
| Cash balance (excluding restricted cash) | 376 | 721 | (345) |

**2. Operational performance**

- The Company produced 11.9 million cubic metres (0.4 Bcf) of gas and 2,930 barrels of condensate during the year and earned over €2.1m (£1.9m) in revenue. Euro revenue is presented to reflect the underlying revenue in Slovenia before exchange rate effects.
- Production has declined over the period and the Company intends to install compression equipment during this year to prolong the life of the wells and maximise recovery.
- Once the permits are in place the Company will be able to re-stimulate both wells and rectify the production issues at Pg-11A to restore both to their full potential.

| **Production KPI's** | **Jan-2018** | **Feb-2018** | **Mar-2018** | **Apr-2018** | **May-2018** | **Jun-2018** |
|---|---|---|---|---|---|---|
| Total production (000s Cubic Metres) | 2,250 | 1,788 | 1,243 | 1,191 | 1,067 | 1,028 |
| Total production (Mcf) | 79,464 | 63,129 | 43,894 | 42,062 | 37,673 | 36,301 |
| Average daily - 000s cubic metres | 72.6 | 63.8 | 40.1 | 39.7 | 34.4 | 34.3 |
| Average daily - MMscfd | 2.6 | 2.3 | 1.4 | 1.4 | 1.2 | 1.2 |
| Condensate production (litres) | 104,517 | 65,470 | 56,130 | 58,428 | 29,646 | 36,666 |
| Litres per 1000 cubic metres of gas | 46 | 37 | 45 | 49 | 28 | 36 |
| BOE – Gas | 13,701 | 10,884 | 7,568 | 7,252 | 6,495 | 6,259 |
| BOE – Condensate | 605 | 412 | 372 | 368 | 186 | 231 |
| Revenue (€000's) | 304.5 | 271.9 | 241.5 | 208.5 | 202.3 | 202.7 |
| Average € per Mcf | 3.8 | 4.3 | 5.5 | 5.0 | 5.4 | 5.6 |
| **Production KPI's** | **Jul-2018** | **Aug-2018** | **Sep-2018** | **Oct-2018** | **Nov-2018** | **Dec-2018** |
| Total production (000s Cubic Metres) | 816 | 727 | 232 | 680 | 463 | 421 |
| Total production (Mcf) | 28,834 | 25,679 | 8,201 | 24,002 | 16,356 | 14,852 |
| Average daily - 000s cubic metres | 26.3 | 23.5 | 7.7 | 21.9 | 15.4 | 13.6 |
| Average daily - MMscfd | 0.9 | 0.8 | 0.3 | 0.8 | 0.5 | 0.5 |
| Condensate production (litres) | 31,212 | 23,652 | 12,258 | 19,080 | 15,714 | 18,418 |
| Litres per 1000 cubic metres of gas | 38 | 33 | 53 | 28 | 34 | 44 |
| BOE – Gas | 4,971 | 4,427 | 1,414 | 4,138 | 2,820 | 2,561 |
| BOE – Condensate | 196 | 149 | 77 | 120 | 99 | 116 |
| Revenue (€'000s) | 165.4 | 155.6 | 69.6 | 162.1 | 96.5 | 79.5 |
| Average € per Mcf | 5.7 | 6.1 | 8.5 | 6.8 | 5.9 | 5.4 |

## Principal risks and uncertainties

| | |
|---|---|
| **Permitting risk** | The single biggest issue when carrying out operations in Slovenia over the past five years has been the environmental permitting process. This is not unique to Ascent and it is our opinion that inefficiencies and uncertainties within the environmental permitting process are a significant hurdle to economic growth in Slovenia.<br><br>Permitting risk exists for any element of the field development plan which requires an environmental permit; mainly well stimulation and the installation of processing equipment. This risk is mitigated by our detailed understanding of the process and our actions to ensure Slovenian and EU regulations are followed properly by Slovenian officials.<br><br>The award of the IPPC Permit post-year end gives the Board an increased degree of confidence that the permits necessary for field development can be obtained. |
| **Concession extension risk** | The date when the concession is due to be renewed is now only three years away which means that before any further significant investment in facilities is made the Company and its partners will need to have obtained an early extension of the concession.<br><br>The Company and its partners have, for over a year now, been completing the documentation required to seek an early extension of the concession which is due to expire in 2022. While we are confident that an extension will be granted as a matter of course, there is no guarantee that this will be the case.<br><br>This risk is mitigated by the goals of the partners being well aligned; the fact that we have brought the field into production safely and successfully and we have started the preparatory work well in advance of the concession end date. As a result, we believe that the extension should be awarded in due course. |
| **Sub-surface risk** | The nature of the Petišovci Project is such that a range of health and safety, drilling, production and commercial risks are identified for the development of the resource.<br><br>The Petišovci Pg reservoirs are over-pressured and hot, relative to normal hydrostatic and thermal gradients. The reservoir gas contains some carbon dioxide and low levels of hydrogen sulphide and mercaptan sulphur.<br><br>There is a risk that the Company is unable to effectively exploit the proven reserves and resources from the Petišovci field which may result in a lower than anticipated return on investment. This risk is mitigated by the experience of the expert technical consultants and sub-contractors retained by the Company and the knowledge acquired by the Company from production to date. |

| **Risks associated with the UK withdrawal from the European Union** | As a UK registered Company with operations in the EU, there is a risk of a negative impact from the UK's departure from the European Union. This risk is mitigated as we operate through locally owned subsidiaries selling gas produced in Slovenia to Croatia, another EU member state. |
|---|---|

**Outlook**

While 2018 was a challenging year for the Board and its shareholders we look forward to 2019 with renewed optimism. The addition of John and Louis to the Board provides a fresh perspective on the potential of our Slovenian asset and access to new opportunities to grow the Company in the region.

Colin Hutchinson
Chief Executive Officer

# Strategic Report

Section 414C of the Companies Act 2006 ('the Act') requires that the Company inform its members as to how the Directors have performed their duty to promote the success of the Company by way of a Strategic Report which includes a fair review of the business, an analysis of the development and performance of the business and analysis of financial position and key performance indicators.

We have incorporated these requirements into the information set out below, included in the Chief Executive's Review and the Operations Report.

**Company Overview**

Ascent Resources plc ('Ascent' or 'the Company') is an independent oil and gas exploration and production ('E&P') company that was admitted to trading on AIM in November 2004 (AIM: AST). Ascent has been involved in Slovenia for just over 10 years where it operates the Petišovci Tight Gas Project. To date it has invested around €50 million in this project, which is currently its principal asset. This asset has significant oil and gas reserves and resources and an established, local production infrastructure with connections to local and export customers.

During 2017 the Company brought two wells into production and started export production from the Petišovci field in Slovenia to INA in Croatia. The Company is now focussed on developing the field further to increase production and enhance its long-term prospects.

**Asset Overview**

The Petišovci Tight Gas Project is in an area that has been exploited since 1943. The project targets the significant gas reserves and resources in the Middle Miocene Badenian or Petišovci-Globoki ('Pg') gas reservoirs.

Using the results of an extensive 3D seismic survey conducted in 2009 by Ascent and its partners, the locations of two new wells were determined. These wells, Pg-11A and Pg-10 were successfully drilled, completed and stimulated between 2010 and 2012. During 2017 the Company brought both of these wells into production and started exporting gas from Petišovci to INA in Croatia.

Cumulative gas production from the Pg gas field since 1988, including fuel and flare use and accounting for the gas equivalent of the historical condensate production, is 9.8 Bcfe (277.6 $MMsm^3$). This is 2% of the currently estimated gas initially in place ('GIIP') of 456 Bcfe, (12.9 $Bsm^3$), based on independent third-party estimates.

Further details of the asset and current reserves and resources can be found on pages 9 and 11 below.

Ascent operates the Petišovci project on behalf of the Joint Venture between Ascent Slovenia Limited and Geoenergo. Ascent has a 75% working interest in the project and carries 100% of the costs. Until Ascent has recovered its costs in full it will receive 90% of the net revenues.

**Our strategy**

The Board firmly believes that the gas field at Petišovci is an outstanding prospect and therefore to date has focussed all of its resources on this project, directing available funding towards bringing Petišovci into production.

Ascent aims to maximise the production and sale of hydrocarbons from the Petišovci Project for the benefit of all stakeholders. We will achieve this by carefully managing producing wells, successfully reworking existing wells and drilling further wells. In support of this we are currently working to have the existing concession renewed in a timely fashion.

The commencement of production during 2017 was a significant milestone. The development of the project stalled during 2018 due to the Slovenian environmental permitting process. The award of the IPPC Permit in April 2019 gives renewed optimism that the remaining permit can be obtained in due course.

We will continue to pursue the remaining permit while at the same time progressing legal options should this permit continue to be unjustly delayed. Once this permit has also been confirmed we will proceed with the second stage of our development plan at Petišovci.

At the same time, we continue to review additional onshore oil and gas opportunities in Central and Eastern Europe with a focus on markets with:

- Attractive geology in proven petroleum systems
- Where there is an opportunity to use modern exploration techniques for risk reduction
- Markets with strong gas prices and access to high demand markets
- Well established oil and gas infrastructure and regulatory regimes
- Management that have relevant experience
- Potential to engage partners with local expertise

**Our markets**

Dependency on imported gas is very high throughout the EU, particularly in Slovenia. This, and the history of relatively stable gas prices in Europe underpins our strategy of exploration, development and production in this region.

Our wells are connected to existing processing facilities, intra-field and international pipelines, ensuring low cost connection and easy access to the market.

The board recognises the attractiveness of the region for oil and gas development and many countries outside of Slovenia have strong gas prices, well organised regulatory frameworks and a history of oil and gas development.

**How we operate**

The Company utilises a full range of advanced geophysical, geological and other state-of-the-art technology to evaluate and de-risk projects and to reap maximum benefit from its appraisal, development and production activities. Our Petišovci project is operated through a local entity in a joint venture. Wherever possible we utilise local companies to provide services to the project effectively and efficiently.

**Our people**

Ascent has a small management team, implementing a defined development programme. This is supplemented, as the need requires, with regional technical and operational expertise to ensure the highest standards are delivered on our projects. As an important local employer in our area of operation we take our environmental and social responsibilities seriously and always strive to be a good corporate citizen.

**Approved for issue by the Board of Directors**
**and signed on its behalf**

**Cameron Davies**
Chairman
10 May 2019

# Operations Review

## Slovenia

*Ascent Slovenia Ltd 75% (operator), Geoenergo d.o.o. 25% (concession holder)*

The Petišovci Tight Gas Project, in a 98 $km^2$ area in north eastern Slovenia, targets the development of tight gas reservoirs known to be in Miocene clastic sediments.

Ascent first acquired an interest in the Petišovci project in 2007, and in 2009 an extensive 3D seismic survey was conducted across the Petišovci concession area.

The structure has two sets of reservoirs, the shallower Upper Miocene and the deeper Middle Miocene. The Middle Miocene Badenian reservoirs, or Pg sands, are the focus of Ascent's development objectives; however, the shallow reservoirs, which were extensively developed during the 1960s, are not considered to be fully depleted.

The north-east region of Slovenia has been an oil and gas producing area since the early 1940s and contains much of the infrastructure necessary for processing and exporting produced hydrocarbons.

Two new appraisal wells, Pg-10 and Pg-11, drilled in 2010/2011 to a total vertical depth of 3,497 m and 3,500 m respectively, confirmed gas in all six Middle Miocene Badenian reservoirs (‘A’ to ‘F’ Pg sands). Gas flowed for the first time from the shallowest ‘A’ sands and, in addition, gas and condensate were sampled from the Lower Badenian ‘L’ to ‘Q’ sands. Pg-10 proved productive from the ‘F’ sands and Pg-11A (Pg-11 was side-tracked for technical reasons to Pg-11A) from the deeper ‘L’ to ‘Q’ sands. Both wells were successfully stimulated resulting in flow rates of 8 MMscfd from the ‘F’ sands and 2 MMscfd from the ‘L, M and N’ sands, proving the commercial potential of both wells.

During 2017 both Pg-10 and Pg-11A were brought into production. In April 2017 test production commenced from Pg-10 with the resulting gas sold to a local industrial customer. In November 2017 export production began. This followed the upgrade and installation of infrastructure and the recommissioning of the export pipeline which links the Petišovci field in Slovenia with the Medjimurje field in Croatia which is operated by INA. Total production since November 2017 is 15.5 million cubic metres of gas.

## Back-in Rights

### Netherlands

As part of the Sale and Purchase Agreement signed in 2013 with Tulip Oil Netherlands B.V. for the Company’s former Dutch licences, Ascent has the right to re-purchase a 10% interest in each of the Dutch licences (M10a, M11 or Terschelling Noord) once Tulip has made a final investment decision with respect to commercial development.

# Summary of Group Net Oil and Gas Reserves

## Net Reserves and Resources

| | Net Attributable Reserves (Bcfe) | | | Net Attributable Contingent Resources (Bcfe) | | | Net Attributable Prospective Resources (Bcfe) | | |
|---|---|---|---|---|---|---|---|---|---|
| | P90 | P50 | P10 | Low | Best | High | Low | Best | High |
| Slovenia | 40 | 87 | 173 | 42 | 76 | 140 | - | - | - |

These figures are based on RPS gas-in-place estimates with a management assumption of a 50% recovery factor and Ascent's 75% participation.

Tested and/or produced commercial sands are included as reserves while untested and unproduced sands remain as resources. The condensate content of gas is not included.

Remaining reserves have been adjusted to take account of historic field production and estimates of process flare and fuel, which to the end of 2018 were 9.8 Bcfe. Ascent's share of this production and gas use is 7.4 Bcf.

Proven Reserves (P90) are those quantities of petroleum which can be estimated with reasonable certainty to be commercially recoverable, from known reservoirs and under current economic conditions, operating methods and government regulations.

Proven + Probable Reserves (P50) includes those unproven reserves which are more likely than not to be recoverable.

For the P90 (P50 and P10) Reserves there is at least a 90% (50%; 10%) probability that the quantities actually recovered will equal or exceed the estimate.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent resources may include, for example, projects for which there are currently no viable markets or where commercial recovery is dependent on technology under development or where evaluation of the accumulation is insufficient to clearly assess commerciality.

Prospective Resources are those quantities of petroleum which are estimated to be potentially recoverable from undiscovered accumulations.

The range of estimates shown for each category of reserves or resources is a measure of the uncertainty inherent in the estimation of producible volumes and includes the current perceptions of geological, operational and commercial risk.

## Summary of Ascent Resources plc's Licence Interests as at 31 December 2018

| Permit | Subsidiary | Working Interest (%) | Permit Area Gross ($km^2$) | Net ($km^2$) | Status |
|---|---|---|---|---|---|
| **<u>Operations</u>** | | | | | |
| **Slovenia** | | | | | |
| Petišovci Concession | Ascent Slovenia Limited | 75 | 98 | 73 | Oil & gas exploitation |
| **<u>Back-in rights</u>** | | | | | |
| **The Netherlands** | | | | | |
| M10a/M11 Terschelling-Noord | Ascent Resources Netherlands BV | | 110 | 59 | Gas exploration and appraisal |

## Glossary

| | | | |
|---|---|---|---|
| M | Thousand* | cf | Cubic feet |
| MM | Million* | scf | Standard cubic feet |
| B | Billion* | scfd | Standard cubic feet per day |
| $km^2$ | Square kilometres | Bcfe | Billion cubic feet equivalent |
| $m^3$ | Cubic metres | | |

* These are 'oilfield' units, as commonly used in the oil and gas industry. Other units conform to the Système International d'unités (SI) convention

# Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 December 2018 ('the year').

**Principal activities**

The principal activities of the Group comprise gas and oil exploration and production. The Company is registered in England and Wales and is quoted on the AIM Market of the London Stock Exchange.

The Group's corporate management is in London and its oil and gas interests are in Slovenia. The Group operates its own undertakings both through subsidiary companies and joint ventures. The subsidiary undertakings affecting the Group's results and net assets are listed in Note 11 to the Financial Statements.

**Future developments**

The Company has identified the European gas market as a relatively stable and secure arena in which to compete. The European market continues to be a net importer of gas whilst diversity of supply is central to the energy security strategy of most nations. The Petišovci field in Slovenia has the potential to supply a significant proportion of the country's gas requirement for many years.

**Financial risk management**

Details of the Group's financial instruments and its policies with regard to financial risk management are given in Note 25 of the Financial Statements.

**Results and dividends**

The loss for the year after taxation was £1.4 million (2017: £2.0 million). The Directors do not recommend the payment of a dividend (2017: Nil).

**Post balance sheet events**

On 14 January 2019, Clive Carver resigned from the Board and was replaced as Chairman by Cameron Davies.

On 20 January 2019 the Company raised £349,056 in an offer via the PrimaryBid platform at the price of 0.3 pence per ordinary share. A total of 121,052,097 shares were issued including 4,700,000 ordinary shares issued to suppliers at the same price. Colin Hutchinson, Chief Executive of the Company subscribed for 1,000,000 shares in the placing.

On 18 February 2019, Nigel Moore retired from the Board while John Buggenhagen and Louis Castro were both appointed to the Board.

On 15 April 2019 the Company announced that it had received confirmation that the IPPC Permit was fully valid.

On 24 April 2019 the Company announced it had raised £750,000 in an oversubscribed placing of 214,285,714 Ordinary Shares of 0.2 pence each at a price of 0.35 pence per share.

On 29 April 2019 the Company extended the gas sales agreement under which untreated raw gas is sold to INA in Croatia until November 2019.

**Directors**

The Directors of the Company that served during the year, and subsequently, were as follows:

Colin Hutchinson
Clive Nathan Carver (resigned 15 January 2019)
Nigel Sandford Johnson Moore (resigned 18 February 2019)
William Cameron Davies
John Edmund Buggenhagen (appointed 18 February 2019)
Louis Emmanuel Castro (appointed 18 February 2019)

Relevant details of the Directors, which include committee memberships, are set out on page 17.

**Directors' interests**

The beneficial and non-beneficial interests in the issued share capital and Convertible Loan Notes ("CLN") of the Company were as follows:

| | ***Ordinary shares of 0.2p each.*** | |
|---|---|---|
| | **At 31 December 2018** | At 31 December 2017 |
| Clive Carver | **3,304,231** | 3,304,231 |
| Nigel Moore | **1,339,275** | 1,339,275 |
| Cameron Davies | **1,340,800** | 1,340,800 |
| Colin Hutchinson | **1,570,370** | 1,570,270 |

**Directors' emoluments**

Details of Directors' share options and remuneration are set out in Note 4 to the Financial Statements, under the heading 'Directors' remuneration'.

**Third party indemnity provision**

The Company has provided liability insurance for its Directors. The annual cost of the cover is not material to the Group. The Company's Articles of Association allow it to provide an indemnity for the benefit of its Directors which is a qualifying indemnity provision for the purposes of the Companies Act 2006.

**Share capital**

Details of changes to share capital in the period are set out in Note 18 to the Financial Statements.

As at 6 May 2019 the Company has been notified of the following significant interests in its ordinary shares, being a holding of 3% and above:

| | **Number of ordinary shares** | **%** |
|---|---|---|
| Hargreaves Lansdown (Nominees) Limited <15942> | 265,072,814 | 10.09 |
| Hargreaves Lansdown (Nominees) Limited <HLNOM> | 256,493,594 | 9.77 |
| Interactive Investor Services Nominees Limited <SMKTNOMS> | 212,681,458 | 8.10 |
| Barclays Direct Investing Nominees Limited <Client1> | 185,898,373 | 7.08 |
| Hargreaves Lansdown (Nominees) Limited <VRA> | 184,881,033 | 7.04 |
| HSDL Nominees Limited | 176,551,762 | 6.72 |
| Share Nominees Ltd | 142,522,519 | 5.43 |
| Interactive Investor Services Nominees Limited <SMKTISAS> | 111,350,896 | 4.24 |
| HSDL Nominees Limited <Maxi> | 101,929,940 | 3.88 |
| Lombard Odier | 94,285,714 | 3.59 |
| Jamieson Principal Pension Fund | 92,900,000 | 3.54 |

**Shareholder communications**

The Company has a website, www.ascentresources.co.uk, for the purposes of improving information flow to shareholders, as well as potential investors.

**Employees**

The Company's Board composition provides the platform for sound corporate governance and robust leadership in implementing the Company's strategies to meet its stated goals and objectives.

The Group's employees and consultants play an integral part in executing its strategy and the overall success and sustainability of the organisation. The Group has a highly skilled and dedicated team of employees and consultants and places great emphasis on attracting and retaining quality staff. As an international oil and gas company, we facilitate the development of leadership from the communities in which we operate. There is a large pool of qualified upstream oil

and gas exploration and production professionals in the areas in which we operate, and we are committed to building and developing our teams from these talent pools.

The Group holds its employees and consultants at all levels to high standards and expects the conduct of its employees to reflect mutual respect, tolerance of cultural differences, adherence to the corporate code of conduct and an ambition to excel in their various disciplines.

**Disclosure of information to auditors**

In the case of each person who was a Director at the time this report was approved:

- so far as that Director was aware there was no relevant audit information of which the Company's auditors were unaware; and
- that Director had taken all steps that the Director ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**Going Concern**

The Financial Statements of the Group are prepared on a going concern basis as detailed in Note 1 to the financial statements.

The Company has raised £1.1 million in new equity since the balance sheet date from new and existing investors. Under the Group's forecasts, the funds raised together with existing bank balances provide sufficient funding for at least the next twelve months based on anticipated outgoings and the receipt of revenues from production.

However, the forecast cash balances do become limited towards the end of 2019, until the anticipated production growth from the planned capital expenditure takes effect. The forecasts are sensitive to the timing and cash flows associated with the capital works and the associated production improvement. In the event that the anticipated cash outflows be greater than expected or cash inflows are lower than expected, further funding would be required. As a result, there can be no guarantee that additional funding will not be required.

Based on recent support from new and existing investors the Board believes that such funding, if required, would be obtained through debt or equity.

As a consequence, there is material uncertainty which may cast significant doubt over the Group and Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

**Auditors**

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of BDO LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

**Approved for issue by the Board of Directors**
**and signed on its behalf**

**Dr Cameron Davies**
Chairman
10 May 2019

# Board of Directors

**Cameron Davies**
***Non-executive Chairman***
*Chairman of the Remuneration Committee and member of the Audit Committee*

Cameron Davies is an international energy sector specialist and the former Chief Executive of Alkane Energy plc. He has a PhD in Applied Geochemistry from Imperial College, is a Fellow of the Geological Society of London and a member of the European Petroleum Negotiators Group and the PESGB. He has an excellent track record of exploration success and also growing profits in a quoted energy company. His career successes include the discovery of the third largest oilfield in Tunisia. In 1994 he founded Alkane Energy plc and managed the business from original concept, through venture capital funding and an IPO to become a profitable operator of c. 160 MW of gas to power generation plants. In Q4 2016 Alkane was acquired for c.£61 million by Balfour Beatty Infrastructure Partners when Cameron resigned as a director. He is also Non-executive Chairman of Powerhouse Energy PLC.

**Colin Hutchinson**
***Chief Executive Officer & Finance Director***

Colin Hutchinson is a fellow of the Institute of Chartered Accountants in Ireland; he holds a law degree from the University of Dundee and an MBA from Warwick Business School. Colin previously served as the Company's Finance Director until June 2016 when he became Chief Executive Officer and Finance Director. After completing his accountancy training with Deloitte, he gained significant international experience while working in commercially orientated finance roles with a mix of technology and energy companies. Prior to joining Ascent, he was Group Financial Controller & Company Secretary at Lochard Energy plc and Co-Founder & Finance Director at Samba Communications Ltd.

**John Buggenhagen**
***Chief Operating Officer***

John Buggenhagen is an experienced and dynamic geophysicist with 20 years' working knowledge of the oil and gas industry. He holds a bachelor's degree in geophysics from the University of Arizona, a master's degree in geophysics from the University of Wyoming, and a Ph.D. in geophysics also from the University of Wyoming. His previous roles include CEO of Palomar Natural Resources, a Polish focussed E&P Company, Director of Exploration for San Leon Energy in London and Exploration Manager Europe for Aspect Energy/Hungarian Horizon.

**Louis Castro**
***Non-executive Chairman***
*Chairman of the Audit Committee and member of the Remuneration Committee*

Louis Castro has over 30 years' experience in investment banking and broking both in the UK and overseas. Most recently he was the Chief Financial Officer at Eland Oil & Gas, a publicly quoted company where he was one of two executive board directors. Previously he was Chief Executive of Northland Capital Partners in London and before this was Head of Corporate Finance at Matrix Corporate Capital and at Insinger de Beaufort. He started his career by qualifying as a Chartered Accountant with Coopers & Lybrand (now PWC).

# Directors and Advisers

| | |
|---|---|
| **Directors** | Cameron Davies<br>Colin Hutchinson<br>John Buggenhagen<br>Louis Castro |
| **Secretary** | Colin Hutchinson |
| **Registered Office** | 5 New Street Square<br>London EC4A 3TW |
| **Nominated Adviser Joint Broker** | WH Ireland Corporate Brokers<br>24 Martin Lane<br>London EC4R 0DR |
| **Joint Broker** | SP Angel Corporate Finance LLP<br>Prince Frederick House<br>35-39 Maddox Street<br>London W1S 2PP |
| **Auditors** | BDO LLP<br>55 Baker Street<br>London W1U 7EU |
| **Solicitors** | Taylor Wessing LLP<br>5 New Street Square<br>London EC4A 3TW |
| **Bankers** | Barclays Corporate Banking<br>1 Churchill Place<br>London E14 5HP |
| **Share Registry** | Computershare Investors Services PLC<br>The Pavilions<br>Bridgwater Road<br>Bristol BS13 8AE |
| **PR & IR** | Yellow Jersey PR Limited<br>33 Stockwell Green<br>London SW99HZ |
| **Company's registered number** | 05239285 |

# Corporate Governance Report

Since September 2018 all AIM companies have been required to comply with a recognised corporate governance code and to disclose how the implementation of the governance code has been applied or to explain any areas of departure from its requirements. Ascent carefully reviewed and then resolved to apply the Quoted Companies Alliance Corporate Governance Code ("QCA Code") published in April 2018 which is constructed around 10 broad principles. This report sets out our approach to the QCA Code and governance. Our compliance with the 10 principles is also available to view on the Company's website: www.ascentresources.co.uk.

Under the QCA regulations we have the option to cross-refer to disclosures made on the website rather than repeat them all in this annual report. The principal disclosures such as the report of the Remuneration and Nominations Committee and Directors' Report are included in this annual report. However, for a full assessment of the Company you are encouraged to review the website for both the regulatory disclosures, and as we progress, more information on the activities of the Company.

The Company's statement in relation to the QCA Corporate Governance code can be found on the Company's website at https://www.ascentresources.co.uk/investors/company-documents-2/.

**Strategy**

The strategy of the Company is set out in the Strategic Report on page 9.

The Company is currently developing the Petišovci project in Slovenia and it is the strategy of the Company to maximise the potential of this project while seeking to expand into similar oil and gas exploration and development projects in the region.

**Key Challenges**

The key challenges faced by the Company are the permitting process for oil and gas development in Slovenia and the technical challenges presented in developing an unconventional natural gas asset.

**Risk Management**

Ascent operates a Management System that embodies Environmental, Health, Safety ('EHS') and Social Responsibility ('SR') principles. This system defines objectives to be met by Ascent, its subsidiaries, affiliates, associates and operated joint ventures (hereinafter collectively referred to as Ascent) in the management of EHS and SR.

The policy of the Board of Ascent is to be fully accountable for the necessary practices, procedures and means being in place so as to ensure that each EHS and SR objective is demonstrated in full and that continuous improvement practices are operating to ensure that the required practices, procedures and means are being monitored, refined and optimised as necessary. The Board will accordingly review and report regularly to external stakeholders as to the achievement of the objectives of this policy.

In accordance with this policy, the Executive Directors of Ascent are directly responsible to the Board for demonstrating that the EHS and SR objectives are attained throughout Ascent. The Executive Directors have adopted Management System Guidelines as guidance for demonstrating this.

The objectives of the Environment, Health, Safety and Social Responsibility Policy are:

- Ascent shall manage all operations in a manner that protects the environment and the health and safety of employees, third parties and the community.
- The Executive Directors provide the vision, establish the framework, set the objectives and provide the resources for responsible management of Ascent's operations.
- Leadership and visible commitment to continuous improvement are critical elements of successful operations.
- A process that measures performance relative to policy aims and objectives is essential to improving performance. Sharing best practices and learning from each other promotes improvement.

- Effective business controls ensure the prevention, control and mitigation of threats and hazards to business stewardship.
- Risk identification, assessment and prioritisation can reduce risk and mitigate hazards to employees, third parties, the community and the environment. Management of risk is a continuous process.
- Safe, environmentally sound operations rely on well-trained, motivated people. Careful selection, placement, training, development and assessment of employees and clear communication and understanding of responsibilities are critical to achieving operating excellence.
- The use of internationally recognised standards, procedures and specifications for design, construction, commissioning, modifications and decommissioning activities are essential for achieving operating excellence.
- Operations within recognised and prudent parameters are essential to achieving clear operating excellence. This requires operating, inspection and maintenance procedures and information on the processes, facilities and materials handled, together with systems to ensure that such procedures have been properly communicated and understood.
- Adhering to established safe work practices, evaluating and managing change and providing up-to-date procedures to manage safety and health risks contribute to a safe workplace for employees and third parties.
- The minimisation of environmental risks and liabilities are integral parts of Ascent's operations.
- Third parties who provide materials and services (personnel and equipment) or operate facilities on Ascent's behalf have an impact on EHS and SR excellence. It is essential that third-party services are provided in a manner consistent with Ascent's EHS and SR Policy and Management System Guidelines.
- Compliance with regulatory requirements and company guidelines must be periodically measured and verified as part of the continuous improvement process.
- Preparedness and planning for emergencies are essential to ensuring that all necessary actions are taken if an incident occurs, to protect employees, third parties, the public, the environment, the assets and brand of Ascent.
- Effective reporting, incident investigation, communication and lessons learned are essential to attaining and improving performance.
- Open and honest communication with the communities, authorities and stakeholders with which Ascent operates builds confidence and trust in the integrity of Ascent.

During 2018, the Group was Operator of one project which was closely managed for maintaining the EHS and SR policy aims.

There have been no breaches of any applicable Acts recorded against the Group during the reporting period.

**Board Composition**

Membership of the Board and information on each member can be found in the Directors' Report. There were some changes to the Board during the year under review and these are explained in the Chairman's statement of this Annual Report and Accounts.

The Board currently comprises two Executive and two Non-executive Directors, supported by the Advisory Board and senior managers, and it oversees and implements the Company's corporate governance programme. Further details pertaining to the Board and the roles carried out by each member are set out in the Directors' Report.

***Cameron Davies****, Independent Non-Executive Chairman*
Cameron Davies is the Group's Non-Executive Chairman and is an independent director.

***Colin Hutchinson****, Chief Executive Officer & Finance Director*
Colin Hutchinson is the Chief Executive Officer and he takes the lead on all matters including investor relations. Colin is supported by a balanced Board of Directors which has the relevant technical, financial and operational expertise.

***John Buggenhagen**, Chief Operating Officer*
John Buggenhagen joined the Board in February 2019 as Chief Operating Officer and he runs the Company's operations and takes the lead on technical matters.

***Louis Castro**, Independent Non-Executive Director*
Louis Castro joined the Board in February 2019, replacing Nigel Moore on his retirement. He is chairman of the Audit Committee and brings over 30 years' experience in corporate finance.

**Departures from the Code**
*Non-Executive Directors' participation in Option Schemes*
In common with many AIM companies, we actively encourage non-executive directors to participate in the Company's option schemes. The purpose of the Company is to grow shareholder value and to effectively remunerate non-executive directors whilst safeguarding the Company's cash balances. The Company therefore actively seeks to link the remuneration of those directly responsible for the Company's growth to increases in the underlying value of the Company - at no cash cost to the Company. The options awarded to the Non-executive Directors account for 0.5% of the Company's issued share capital. They do not represent a significant interest in the scheme and are therefore not a breach of the QCA code.

**Skills and competencies of the Board**
The Chairman believes that, as a whole, the Board has a suitable mix of skills and competencies in order to drive the Group's strategy and is best placed to secure the future of the Company and create long-term value for all stakeholders.

The Board consists of two executive directors and two independent non-executive directors and comprises four men. The nature of the Company's business requires the Directors to keep their skillsets up to date.

Operational skills are maintained through active involvement in the oil and gas industry and by the use of expert consultants where appropriate.

The Company's financial adviser and Nomad and lawyers are consulted on any significant matters where the Board believes external expertise is required.

Colin Hutchinson is primarily responsible for communicating with investors.

The Board is supported by its Audit Committee and its Remuneration Committee. The number of Board and Committee meetings held throughout the course of the financial year is set out at the end of this Corporate Governance Report.

**The Group's culture**
The Board firmly believes that sustained success will best be achieved by adhering to our corporate culture of treating all our stakeholders, including our employees, fairly and with respect. Accordingly, in dealing with each of the Company's principal stakeholders, we encourage our staff to operate in an honest and respectful manner. This is monitored on an ongoing basis by the Company's executive directors. Compliance with this principle is considered an important part of the annual assessment of staff and in setting their pay for future periods.

**Communications with stakeholders**
The Company reports formally to its shareholders and the market generally twice each year with the release of its interim and full year results. The full year results are audited by an external firm of auditors with the interim statement usually subject to a review by the same external auditors.

This Annual Report and Accounts contains full details of all the principal events of the relevant period together with an assessment of current trading and future prospects and the report is made available via the Company's website to anyone who wishes to review it.

The Company maintains a regular dialogue with stakeholders including shareholders to enable interested parties to make informed decisions about the Company and its performance.

Employee stakeholders are regularly updated with the Company's development and its performance.

The Board already discloses the result of general meetings by way of announcement and discloses the proxy voting numbers to those attending the meetings.

**Board and committee meetings**
The Board holds scheduled board meetings or conference calls on a monthly basis and ad-hoc calls are scheduled to react to specific events.

Attendances of Directors at board and committee meetings convened in the year, and which they were eligible to attend, are set out below:

| **Director** | **Board Meetings** | **Remuneration Committee attended** | **Audit Committee Attended** |
|---|---|---|---|
| **Number of meetings in year** | **14** | **-** | **2** |
| **Attendance** | | | |
| Cameron Davies | 14 | - | 2 |
| Colin Hutchinson | 14 | - | 2 |
| Clive Carver (resigned 14 January 2019) | 14 | - | 2 |
| Nigel Moore (resigned 18 February 2019) | 14 | - | 2 |

**Committees of the Board**
The committees of the Board are now comprised of independent non-executive directors. Given the size of the Board the business of the respective committees is, on occasion, dealt with at the main board meeting.

The Board has established the following committees:

***Audit Committee***
The Audit Committee which comprises Louis Castro (Chairman) and Cameron Davies determines and examines any matters relating to the financial affairs of the Group including the terms of engagement of the Group's auditors and, in consultation with the auditors, the scope of the audit.

The Report of the Audit Committee for 2018 is set out on page 24.

***Remuneration Committee***
The Remuneration Committee, which comprises Cameron Davies (Chairman) and Louis Castro is responsible for reviewing the performance of the Chairman and the executive directors, for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders and the performance of the Group. It also reviews the performance of the senior management, sets and reviews their remuneration and the terms of their service contracts and considers the Group's bonus and option schemes, determining targets for any performance-related pay schemes operated by the Company.

The Report of the Remuneration Committee for 2018 is set out on page 25.

The terms of reference of the Audit Committee and the Remuneration Committee are set out on the Company website.

The appropriateness of the Group's governance structures will be reviewed annually in light of further developments of accepted best practice and the development of the Company.

**Rule 21**

The Directors comply with Rule 21 of the AIM Rules relating to directors' dealings and take all reasonable steps to ensure compliance by the Group's applicable employees. The Company has adopted and operates a share dealing code for directors and employees in accordance with the AIM Rules.

**Internal controls**

The Board acknowledges responsibility for maintaining appropriate internal control systems and procedures to safeguard the shareholders' investments and the assets, employees and the business of the Group.

The Board has established and operates a policy of continuous review and development of appropriate financial controls together with operating procedures consistent with the accounting policies of the Group.

**Internal audit**

The Board does not consider it appropriate for the current size of the Group to establish an internal audit function. However, this will be kept under review.

**Bribery and corruption**

The Bribery Act 2010 came into force on 1 July 2011. The Company is committed to acting ethically, fairly and with integrity in all its endeavours and compliance with legislation is monitored. Consideration of the Bribery Act is a standing item at Company board meetings.

# Audit Committee Report

**Committee composition**

The Audit Committee is chaired by Louis Castro who replaced Nigel Moore on his retirement from the Board in February 2019. The committee is composed of Louis Castro and Cameron Davies.

**Role**

The terms of reference of the Audit Committee are available on the Company's website. These terms of reference include:

- Financial reporting – monitor the integrity of the financial statements of the company including its annual and interim reports.
- Internal controls and Risk Management Systems – review the effectiveness of internal controls and risk management systems.

**Key matters considered**

- Group financial disclosures including asset impairment and going concern.
- Reports of the external auditor concerning its audit and review of the financial statements of the Group.
- Corporate governance practice and disclosure

**Going concern**

As part of the year end reporting process, management prepares a range of cash flow forecasts under different scenarios and with a number of sensitivity assumptions. The Committee reviews and challenges these assumptions in order that it can provide comfort to the Board that it is appropriate to prepare the financial statements on a going concern basis. Further details on going concern are provided in Note 1 of the Group financial statements on page 39.

**Approved for issue by the Board of Directors**
**and signed on its behalf**

**Louis Castro**
Chairman
10 May 2019

# Remuneration Committee Report

The Remuneration Committee, which comprises Cameron Davies (Chairman) and Louis Castro is responsible for reviewing the performance of the Chairman and the executive directors, for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders and the performance of the Group. It also reviews the performance of the senior management, sets and reviews their remuneration and the terms of their service contracts and considers the Group's bonus and option schemes, determining targets for any performance-related pay schemes operated by the Company.

The Remuneration and Nomination Committee has amongst its main functions the review of the structure, size and composition of the Board based upon the skills, knowledge and experience required to ensure that the Board operates efficiently and effectively. It will also identify and nominate suitable candidates to the join the Board when vacancies arise and make recommendations to the Board for the re-appointment of non-executive directors.

The terms of reference of the Remuneration Committee are set out on Ascent's website.

**Remuneration policy**

The Group's and the Company's policy is to provide remuneration packages that will attract, retain and motivate its executive directors and senior management. This consists of a basic salary, ancillary benefits and other performance-related remuneration appropriate to their individual responsibilities and having regard to the remuneration levels of comparable posts. The Remuneration Committee determines the contract term, basic salary, and other remuneration for the members of the Board and the senior management team.

**Basic salary and benefits**

The basic salaries and bonus payments of the Directors who served during the financial year are established by reference to their responsibilities and individual performance. The amounts received by the Directors are set out in Note 4 below.

**Share options**

The share options held by executive and non-executive directors are set out in Note 4 below.

**Approved for issue by the Board of Directors**
**and signed on its behalf**

**Dr Cameron Davies**
Chairman
10 May 2019

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report 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 Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the AIM Market.

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 a 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 requirements of 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.

**Website publication**

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the Company's website (www.ascentresources.co.uk) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

# Independent auditor's report to the members of Ascent Resources plc

**Opinion**

We have audited the financial statements of Ascent Resources Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the consolidated income statement and statement of other comprehensive income, the consolidated and company statement of changes in equity, the consolidated and company statement of financial position, the consolidated and company cash flow statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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.

**Material uncertainty related to going concern**

We draw attention to Note 1 of the financial statements concerning the Group and the Parent Company's ability to continue as a going concern. The Group's cash flow forecasts indicate that the forecasts are sensitive to the timing of the cash flows and there can be no guarantee that additional funding will not be required. These matters, along with the other matters explained in Note 1, indicate the existence of a material uncertainty which may cast significant doubt over the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We highlighted going concern as a key audit matter based on our assessment of the significance of the risk and the effect on our audit strategy.

Our audit procedures in response to this key audit matter included the following:

- We analysed Management's and the Directors' cash flow forecast which forms the basis of their assessment that the going concern basis of preparation remains appropriate for the preparation of the Group and Parent Company financial statements for a period of at least twelve months from the date of approval of these financial statements.
- We agreed the receipt of the proceeds of the equity placings post year end to bank.

- We assessed key income and costs included within the cash flow forecast, comparing inputs such as production, costs and gas prices to other evidence obtained during the course of our audit work.
- We performed sensitivity analysis on inputs, including reasonably possible scenarios such as lower production and delays in installation of compressor equipment which management expects to increase production at well Pg-10.
- We tested the mathematical integrity of the cash flow model in order to ensure the basis of preparation of the model is in line with our expectations.
- We checked and considered the adequacy of the disclosure within the financial statements relating to the Directors' assessment of the going concern basis of preparation.

**Key audit matters**

In addition to the matter described in the material uncertainty related to going concern section, 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) that 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.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Carrying values of exploration, evaluation and developed oil and gas assets**<br><br>At 31 December 2018 the Group's exploration and evaluation assets totalled £19m (2017: £18.6m) and the Group's developed oil and gas assets totalled £23.8m (2017: £23.9m) as detailed in notes 9 and 10. All assets are associated with the Petišovci license area and represent material assets on the Group's statement of financial position.<br><br>The Directors identified impairment indicators given production was below plan in 2018 and the Group's market capitalisation is below its net asset value.<br><br>The Directors performed an impairment review using discounted a cash flow model using the fair value less costs to develop method. As detailed in note 1, the assessment of the recoverable value of the assets required judgment and estimation by management.<br><br>The key judgment relates to the Group being successful in secured the requisite permits for well stimulation and development, in addition to the IPPC permit which was approved post year end. The key estimates include gas prices, gas reserves, production and decline rates, and discount rate.<br><br>No impairment was considered to exist by the Board. | We reviewed and challenged the Director's impairment indicator assessment, which were carried out in accordance with IFRS 6 and IAS 36. We performed our own assessment of potential impairment indicators. In doing so we confirmed that the licences remain valid, made inquiries of the Directors regarding the future planned exploration, considered the Group's internal plans and budgets, reviewed the performance of the producing wells against budget and compared the market capitalisation to the Group's net asset value.<br><br>We reviewed and challenged the Director's discounted cash flow forecast model used in the impairment test. In doing so, we considered the Director's conclusion that the Petisovci licence areas represented the cash generating unit used for the impairment review based on the gas reservoir and licence structure, the field development plan and the nature of development to date.<br><br>We reviewed the key assumptions in the models, challenging the appropriateness of estimates with reference to empirical data and external evidence where available for inputs such as gas prices, reserves, production rates and capital expenditure. We sensitised the key inputs such as discount rate, capital expenditure, and gas prices to assess the impact on headroom.<br><br>We agreed the reserves used in the models to the most recent Competent Person's report and |

| | |
|---|---|
| Given the inherent judgement and estimation involved in the assessment of the carrying value of the assets we considered this area to be a key audit matter. | assessed the objectivity, competence and independence of the expert.<br><br>We reviewed the latest developments regarding the IPPC and Well Permit applications. We confirmed the IPPC permit approval, granted on 12 April 2019, to correspondence from the Slovenian Environment Agency. In evaluating the Director's judgment that the Well Permits will be received, we reviewed legal advice obtained by the Group and correspondence with the authorities, considered the history of similar activity and recent approval of the IPPC permit and discussed the judgment with the Audit Committee.<br><br>We assessed the disclosures included in the financial statements in notes 1, 9 and 10 against the relevant accounting standards. |
| ***Observations:***<br><br>We found the Director's conclusion that there is no requirement for impairment for exploration and evaluation costs or property, plant and equipment to be supportable. Overall, we found the estimates to be balanced and well considered. We found the disclosures to be clear and in line with the relevant accounting standards. | |

**Our application of materiality**

| Year | Group Materiality | Basis for materiality |
|---|---|---|
| FY 2018 | £660,000 | Materiality based on 1.5% of group assets. |
| FY 2017 | £650,000 | Materiality based on 1.5% of group assets. |

We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements, given the Group's status as an oil and gas exploration and development company with limited production and revenues, and therefore consider this to be an appropriate basis for materiality.

Materiality for the Parent Company was set at £525,000 (2017: £585,000) using a benchmark of 1.5% (2017: 1.5%) of total assets, limited to 80% (2017: 90%) of Group materiality.

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.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements

exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% (2017: 75%) of the above materiality levels. This is based on the low level of misstatements in the past and the overall control environment.

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 £33,000 (2017: £30,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Whilst materiality for the financial statements as a whole was £660,000, each significant component of the Group was audited to a lower level of performance materiality of £390,000 (2017: £430,000).

**An overview of the scope of our audit**

Our group audit focused on the Group's principal activities and the reporting entities in which these operations were held. As a result, we determined that there were two significant components, which comprised Ascent resources Plc and Ascent Slovenia Limited and were subject to a full scope audit. The audits of each of the components were performed in the UK. All of the audits were conducted by BDO LLP.

The remaining components of the Group were considered non-significant and such components were subject to analytical review procedures together with substantive testing on group audit risk areas applicable to that component, carried out by the group audit team.

**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 Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of Directors**

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

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

**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 Parent 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 Parent 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 Parent Company and the Parent Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Ryan Ferguson (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, United Kingdom

10 May 2019

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

# Consolidated Income Statement & Statement of Other Comprehensive Income

**For the year ended 31 December 2018**

| | Notes | **Year ended 31 December 2018 £ ’000s** | Year ended 31 December 2017 £ ’000s |
|---|---|---|---|
| Revenue | **2** | **1,942** | 814 |
| Other Cost of sales | **2** | **(771)** | (403) |
| Depreciation of oil & gas assets * | **9** | **(793)** | (239) |
| **Gross profit** | | **378** | 172 |
| Administrative expenses | **3** | **(1,760)** | (1,791) |
| **Operating profit / (loss)** | | **(1,382)** | (1,619) |
| Finance income | **5** | **26** | - |
| Finance cost | **5** | **(9)** | (347) |
| **Net finance costs** | | **17** | (347) |
| **Loss before taxation** | | **(1,365)** | (1,966) |
| Income tax expense | **6** | **-** | - |
| **Loss for the period after tax** | | **(1,365)** | (1,966) |
| **Loss for the year attributable to equity shareholders** | | **(1,365)** | (1,966) |
| **Loss per share** | | | |
| Basic & fully diluted loss per share (Pence) | **8** | **(0.06)** | (0.10) |

| | **Year ended 31 December 2018 £ ’000s** | Year ended 31 December 2017 £ ’000s |
|---|---|---|
| Loss for the year | **(1,365)** | (1,966) |
| **Other comprehensive income** | | |
| Foreign currency translation differences for foreign operations | **310** | 898 |
| **Total comprehensive gain / (loss) for the year** | **(1,055)** | (1,068) |

* Depreciation was disclosed within Administrative expenses during the prior year

The Notes on pages 39 to 60 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

## For the year ended 31 December 2018

| | Share capital | Share premium | Merger Reserve | Equity reserve | Share based payment reserve | Translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| | £ '000s | £ '000s | £ '000s | £ '000s | £ '000s | £ '000s | £ '000s | £ '000s |
| **Balance at 1 January 2017** | **3,732** | **63,273** | **-** | **3,147** | **1,680** | **192** | **(38,157)** | **33,867** |
| **Comprehensive income** | | | | | | | | - |
| Loss for the year | - | - | - | - | - | - | (1,966) | (1,966) |
| **Other comprehensive income** | | | | | | | | |
| Currency translation differences | - | - | - | - | - | 898 | - | 898 |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **898** | **(1,966)** | **(1,068)** |
| **Transactions with owners** | | | | | | | | |
| Conversion of loan notes | 1,803 | 4,564 | - | (3,131) | - | - | 3,131 | 6,367 |
| Issue of shares during the year net of costs | 516 | 3,810 | - | - | - | - | - | 4,326 |
| Shares issued under the Trameta acquisition | 50 | - | 300 | - | (350) | - | - | - |
| Share-based payments and expiry of options | - | - | - | - | 239 | - | - | 239 |
| **Balance at 31 December 2017** | **6,101** | **71,647** | **300** | **16** | **1,569** | **1,090** | **(36,992)** | **43,731** |
| **Balance at 1 January 2018** | **6,101** | **71,647** | **300** | **16** | **1,569** | **1,090** | **(36,992)** | **43,731** |
| **Comprehensive income** | | | | | | | | |
| Loss for the year | - | - | - | - | - | - | (1,365) | (1,365) |
| **Other comprehensive income** | | | | | | | | |
| Currency translation differences | - | - | - | - | - | 310 | - | 310 |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **310** | **(1,365)** | **(1,055)** |
| **Transactions with owners** | | | | | | | | |
| Conversion of loan notes | - | 1 | - | - | - | - | - | **1** |
| Shares issued under the Trameta acquisition | 45 | - | 270 | - | (315) | - | - | **-** |
| Share-based payments | - | - | - | - | 403 | - | - | **403** |
| **Balance at 31 December 2018** | **6,146** | **71,648** | **570** | **16** | **1,657** | **1,400** | **(38,357)** | **43,080** |

The Notes on pages 39 to 60 are an integral part of these consolidated financial statements.

# Company Statement of Changes in Equity

**For the year ended 31 December 2018**

| | Share capital | Share premium | Merger Reserve | Equity reserve | Share based payment reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | £ ’000s | £ ’000s | £ ’000s | £ ’000s | £ ’000s | £ ’000s | £ ’000s |
| **Balance at 1 January 2017** | **3,732** | **63,273** | **-** | **3,147** | **1,680** | **(35,322)** | **36,510** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | - | - | - | - | - | 1,349 | 1,349 |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **1,349** | **1,349** |
| **Transactions with owners** | | | | | | | |
| Conversion of loan notes | 1,803 | 4,564 | - | (3,131) | - | 3,131 | 6,367 |
| Issue of shares during the year net of costs | 516 | 3,810 | - | - | - | - | 4,326 |
| Shares issued under the Trameta acquisition | 50 | - | 300 | - | (350) | - | - |
| Share-based payments and expiry of options | - | - | - | - | 239 | - | 239 |
| **Balance at 31 December 2017** | **6,101** | **71,647** | **300** | **16** | **1,569** | **(30,842)** | **48,791** |
| **IFRS 9 adjustment on intercompany debt** | **-** | **-** | **-** | **-** | **-** | **(1,697)** | **(1,697)** |
| **Balance at 1 January 2018** | **6,101** | **71,647** | **300** | **16** | **1,569** | **(32,539)** | **47,094** |
| **Comprehensive income** | | | | | | | |
| Profit and total comprehensive income for the year | - | - | - | - | - | 794 | 794 |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **-** | **794** | **794** |
| **Transactions with owners** | | | | | | | |
| Conversion of loan notes | - | 1 | - | - | - | - | 1 |
| Shares issued under the Trameta acquisition | 45 | - | 270 | - | (315) | - | - |
| Share-based payments | - | - | - | - | 403 | - | 403 |
| **Balance at 31 December 2018** | **6,146** | **71,648** | **570** | **16** | **1,657** | **(31,745)** | **48,292** |

The Notes on pages 39 to 60 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

**As at 31 December 2018**

| | Notes | 31 December 2018 £ '000s | 31 December 2017 £ '000s |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **9** | **23,779** | 23,902 |
| Exploration and evaluation costs | **10** | **18,968** | 18,587 |
| Prepaid abandonment fund | **12** | **240** | 279 |
| **Total non-current assets** | | **42,987** | 42,768 |
| **Current assets** | | | |
| Inventory | | **3** | 2 |
| Trade and other receivables | **12** | **233** | 763 |
| Cash and cash equivalents | **24** | **376** | 721 |
| Restricted cash | **24** | **180** | 355 |
| **Total current assets** | | **792** | 1,841 |
| **Total assets** | | **43,779** | 44,609 |
| | | | |
| **Equity and liabilities** | | | |
| **Attributable to the equity holders of the Parent Company** | | | |
| Share capital | **18** | **6,146** | 6,101 |
| Share premium account | | **71,648** | 71,647 |
| Merger reserve | | **570** | 300 |
| Equity reserve | | **16** | 16 |
| Share-based payment reserve | | **1,657** | 1,569 |
| Translation reserves | | **1,400** | 1,090 |
| Retained earnings | | **(38,357)** | (36,992) |
| **Total equity** | | **43,080** | 43,731 |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | **14** | **44** | 36 |
| Provisions | **15** | **263** | 266 |
| **Total non-current liabilities** | | **307** | 302 |
| **Current liabilities** | | | |
| Trade and other payables | **16** | **392** | 576 |
| **Total current liabilities** | | **392** | 576 |
| **Total liabilities** | | **699** | 878 |
| **Total equity and liabilities** | | **43,779** | 44,609 |

The Notes on pages 39 to 60 are an integral part of these consolidated financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 10 May 2019 and signed on its behalf by:

**Dr Cameron Davies**
Chairman
10 May 2019

# Company Statement of Financial Position

**As at 31 December 2018**

| | Note | **31 December 2018 £ '000s** | 31 December 2017 £ '000s |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **1** | 1 |
| Investment in subsidiaries and joint ventures | **11** | **15,443** | 15,443 |
| Intercompany receivables | **21** | **32,713** | 32,447 |
| **Total non-current assets** | | **48,157** | 47,891 |
| **Current assets** | | | |
| Trade and other receivables | **13** | **11** | 55 |
| Cash and cash equivalents | **24** | **112** | 700 |
| Restricted cash | **24** | **180** | 355 |
| **Total current assets** | | **302** | 1,110 |
| **Total assets** | | **48,460** | 49,001 |
| | | | |
| **Equity and liabilities** | | | |
| Share capital | **18** | **6,146** | 6,101 |
| Share premium account | | **71,648** | 71,647 |
| Merger reserve | | **570** | 300 |
| Equity reserve | | **16** | 16 |
| Share-based payment reserve | | **1,657** | 1,569 |
| Retained loss | | **(31,745)** | (30,842) |
| **Total equity** | | **48,292** | 48,791 |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | **14** | **44** | 36 |
| **Total non-current liabilities** | | **44** | 36 |
| **Current liabilities** | | | |
| Trade and other payables | **17** | **124** | 174 |
| **Total current liabilities** | | **124** | 174 |
| **Total liabilities** | | **168** | 210 |
| **Total equity and liabilities** | | **48,460** | 49,001 |

The Company profit for the year was £0.8 million (2017: profit of £1.3 million).

The Notes on pages 39 to 60 are an integral part of these consolidated financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 10 May 2019 and signed on its behalf by:

**Dr Cameron Davies**
Chairman
10 May 2019

# Consolidated Cash Flow Statement

**For the year ended 31 December 2018**

| | **Year ended 31 December 2018 £ '000s** | Year ended 31 December 2017 £ '000s |
|---|---|---|
| **Cash flows from operations** | | |
| Loss after tax for the year | **(1,365)** | (1,966) |
| Depreciation | **793** | 239 |
| Change in inventory | **1** | (2) |
| Change in receivables | **530** | (731) |
| Change in payables | **(184)** | 121 |
| Increase in share-based payments | **403** | 239 |
| Exchange differences | **24** | 29 |
| Finance income | **(26)** | - |
| Finance cost | **9** | 347 |
| Transfer from / (to) restricted cash | **175** | (355) |
| **Net cash generation from (used in) operating activities** | **360** | (2,079) |
| | | |
| **Cash flows from investing activities** | | |
| Interest received | **24** | - |
| Payments for fixed assets | **(411)** | (45) |
| Payments for investing in exploration | **(319)** | (4,343) |
| Prepayment to the abandonment fund | **-** | (279) |
| **Net cash used in investing activities** | **(706)** | (4,667) |
| | | |
| **Cash flows from financing activities** | | |
| Interest paid and other finance fees | **(1)** | (12) |
| Proceeds from issue of shares | **-** | 4,500 |
| Share issue costs | **-** | (174) |
| **Net cash generated from financing activities** | **(1)** | 4,314 |
| | | |
| **Net increase in cash and cash equivalents for the year** | **(347)** | (2,432) |
| Effect of foreign exchange differences | **2** | - |
| Cash and cash equivalents at beginning of the year | **721** | 3,153 |
| **Cash and cash equivalents at end of the year** | **376** | 721 |

***** Restricted cash related to monies held on deposit by Ascent as collateral against a bank guarantee in favour of INA to cover any potential future penalties under the gas sales agreement.

The Notes on pages 39 to 60 are an integral part of these consolidated financial statements.

# Company Cash Flow Statement

**For the year ended 31 December 2018**

| | **Year ended 31 December 2018 £ ’000s** | Year ended 31 December 2017 £ ’000s* |
|---|---|---|
| **Cash flows from operations** | | |
| Profit after tax for the year | **794** | 1,349 |
| Adjustments for: | | |
| Change in receivables | **44** | (45) |
| Change in payables | **(50)** | 9 |
| Change in intercompany receivables | **(1,513)** | (2,097) |
| Increase in share-based payments | **403** | 239 |
| Exchange differences | **(450)** | (1,294) |
| Finance cost | **8** | 337 |
| Transfer to / from restricted cash | **175** | (355) |
| **Net cash generation from (used in) operating activities** | **(589)** | (1,857) |
| | | |
| **Cash flows from investing activities** | | |
| Advances to subsidiaries | **-** | (4,911) |
| **Net cash used in investing activities** | **-** | (4,911) |
| | | |
| **Cash flows from financing activities** | | |
| Interest paid and other finance fees | **(1)** | (2) |
| Proceeds from issue of shares | **-** | 4,500 |
| Share issue costs | **-** | (174) |
| **Net cash generated from financing activities** | **(1)** | 4,324 |
| | | |
| **Net increase in cash and cash equivalents for the year** | **(590)** | (2,444) |
| Effect of foreign exchange differences | **2** | 1 |
| Cash and cash equivalents at beginning of the year | **700** | 3,143 |
| **Cash and cash equivalents at end of the year** | **112** | 700 |

* Restricted cash related to monies held on deposit by Ascent as collateral against a bank guarantee in favour of INA to cover any potential future penalties under the gas sales agreement. £2,097k has been reclassified from advances to subsidiaries within investing activities to change in intercompany receivables within operating activities in 2017 following an assessment of the nature of the cash flows.

The Notes on pages 39 to 60 are an integral part of these consolidated financial statements.

# Notes to the accounts

## 1 Accounting policies

**Reporting entity**

Ascent Resources plc ('the Company' or 'Ascent') is a company domiciled and incorporated in England. The address of the Company's registered office is 5 New Street Square, London, EC4A 3TW. The consolidated financial statements of the Company for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and joint ventures. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Company is admitted to AIM, a market of the London Stock Exchange.

The consolidated financial statements of the Group for the year ended 31 December 2018 are available from the Company's website at www.ascentresources.co.uk.

**Statement of compliance**

The financial statements of the Group and Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union, and with the Companies Act 2006 as applicable to companies reporting under IFRS.

The Group's and Company's financial statements for the year ended 31 December 2018 were approved and authorised for issue by the Board of Directors on 10 May 2019 and the Statements of Financial Position were signed on behalf of the Board by Cameron Davies.

Both the Parent Company financial statements and the Group financial statements give a true and fair view and have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('IFRSs').

**Basis of preparation**

In publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. The Company profit for the year was £794,000 (2017: profit of £1,349,000)

**Measurement Convention**

The financial statements have been prepared under the historical cost convention. The financial statements are presented in sterling and have been rounded to the nearest thousand (£'000s) except where otherwise indicated.

The principal accounting policies set out below have been consistently applied to all periods presented.

**Going Concern**

The Company has raised £1.1 million in new equity since the balance sheet date from new and existing investors. Under the Group's forecasts, the funds raised together with existing bank balances provide sufficient funding for at least the next twelve months based on anticipated outgoings and the receipt of revenues from production.

However, the forecast cash balances do become limited towards the end of 2019, until the anticipated production growth from the planned capital expenditure takes effect. The forecasts are sensitive to the timing and cash flows associated with the capital works and the associated production improvement. In the event that the anticipated cash outflows be greater than expected or cash inflows are lower than expected, further funding would be required. As a result, there can be no guarantee that additional funding will not be required.

Based on recent support from new and existing investors the Board believes that such funding, if required, would be obtained through debt or equity.

As a consequence, there is material uncertainty which may cast significant doubt over the Group and Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

**New and amended Standards effective for 31 December 2018 year-end adopted by the Group:**

i. The following new standards and amendments to standards are mandatory for the first time for the Group for the financial year beginning 1 January 2018. The adoption of these standards and amendments has had no material effect on the Group's results, although they have given rise to changes to disclosures.

| **Standard** | **Description** | **Effective date** |
|---|---|---|
| IFRS 9 | Financial instruments | 1 January 2018 |
| IFRS15 | Revenue from Contracts with Customers | 1 January 2018 |

IFRS 15 is introduces a single framework for revenue recognition and clarify principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. The core principle is that an entity recognises revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Transfer takes place when the hydrocarbons are delivered to the customer at a price indexed to the Central European Gas Hub price. The Company has only one customer as all production is sold by our joint venture partner: the concession holder. Management have assessed the point of revenue recognition as a result of IFRS15 and there are no changes. Revenue continues to be recognised at the point in time that hydrocarbons are delivered to the ultimate customer being a defined metering point for sales to INA or the point and on delivery to the customer in the case of condensate and the obligation under the joint venture for the concession holder to remit proceeds to the joint venture partners is created.

IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses or losses on loans. The standard addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement and impairment, derecognition and hedge accounting.

The Group has performed a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets.

For trade receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available. The Group's trade receivables are generally settled on a short time frame without material credit risk concerns at the time of transition, so this change in policy had no material impact on the amounts recognised in the financial statements.

Loans to subsidiary undertakings are subject to IFRS 9's new expected credit loss model. As all intercompany loans are repayable on demand, the loan is considered to be in stage 3 of the IFRS 9 ECL model on the basis the subsidiary does not have highly liquid assets in order to repay the loans if demanded. Lifetime ECLs are determined using all relevant, reasonable and supportable historical, current and forward-looking information that provides evidence about the risk that the subsidiaries will default on the loan and the amount of losses that would arise as a result of that default. All recovery strategies indicated that the Company will fully recover the full balances of the loans so no ECL has been recognised in the current period. Loans will either be repaid through net income from production or from a claim for damages resulting from the withholding of necessary permits.

The standard was mandatory for the accounting period beginning on 1 January 2018 and was applied using the modified retrospective transition approach. See Note 21 for the impact of IFRS 9 and new accounting policies.

ii. Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

| Standard | Description | Effective date |
|---|---|---|
| IFRS 16 | Leases | 1 January 2019 |
| IFRIC 23 * | Uncertainty over income tax treatments | 1 January 2019 |
| IAS 28* | Amendments to IAS 28: Long term interests in Associates and Joint Ventures | 1 January 2019 |
| | Annual improvements to IFRSs (2015-2017 cycle)* | 1 January 2019 |

* not yet adopted by the European Union

IFRS 16 introduces a single lease accounting model. This standard requires lessees to account for all leases under a single on-balance sheet model. Under the new standard, a lessee is required to recognise all lease assets and liabilities on the balance sheet; recognise amortisation of leased assets and interest on lease liabilities over the lease term; and separately present the principal amount of cash paid and interest in the cash flow statement. Management is finalising its analysis and will be in a position to adopt the new standard and quantify its impact within H1 2019 for the interim results. The Group does not expect this to have a material impact on the financial statements although the analysis is ongoing at this stage.

The Group does not expect the other standards to have a material impact on the financial statements.

**Critical accounting estimates and assumptions and critical judgements in applying the Group's accounting policies**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on practical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information. Such changes are recorded in the period in which the estimate is revised.

The application of the Group's accounting policies may require management to make judgements, apart from those involving estimates, which can have a significant effect on the amounts amortised in the financial statements. Management judgement is particularly required when assessing the substance of transactions that have a complicated structure or legal form.

(a) Exploration and evaluation assets – exploration and evaluation costs are initially classified and held as intangible fixed assets rather than being expensed. The carrying value of intangible exploration and evaluation assets are then determined. Management considers these assets for indicators of impairment under IFRS 6 at least annually based on an estimation of the recoverability of the cost pool from future development and production of the related oil and gas reserves which

requires judgement. This assessment includes assessment of the underlying financial models for the Petišovci field and requires estimates of gas reserves, production, gas prices, operating and capital costs associated with the field and discount rates (see Note 10) using the fair value less cost to develop method which is commonplace in the oil and gas sector. The forecasts are based on the approval of the IPPC permit and other environmental permits which the Board anticipate being issued having considered all facts and circumstances and noting the recent approval by the Slovenian authorities on 15 April 2019. The carrying value of exploration assets at 31 December 2018 was £18,968,000 (2017: £18,587,000).

(b) Decommissioning provision – the provision for decommissioning is estimated by reference to operators and internal specialist staff and requires estimates regarding the cost of decommissioning, inflation, discount rates and the timing of works which requires judgement (see Note 15); The carrying value of the provision is £263,000 (2017: £266,000).

(c) Commercial reserves – Commercial reserves are proven, and probable oil and gas reserves calculated on an entitlement basis and are integral to the assessment of the carrying value of the exploration, evaluation and production assets. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price.

(d) Transfer of exploration assets to property, plant and equipment - during the prior year we transferred the costs associated with areas of the Petišovci asset that were determined to have achieved commercial feasibility with commercial production from exploration costs to PPE. This judgment was based on assessment of the gas reserves, levels of production and associated profitability and the commencement of export production at Pg-10 and Pg-11A. Judgment was required in establishing the costs to be transferred from the exploration cost pool. Costs transferred comprised direct costs associated with the wells and infrastructure, together with an apportionment of the wider unallocated cost pool based on the ratio of estimated future production from the two wells relative to the field as a whole. During the prior year £24,092,000 was transferred from exploration to property plant and equipment. This is included in Notes 9 and 10.

(e) Carrying value of property, plant and equipment (developed oil and gas assets) – developed oil and gas assets are tested for impairment at each reporting date. The impairment test was based on a discounted cash flow model using a fair value less cost to develop approach commonplace within the oil and gas sector. Key inputs requiring judgment and estimate included gas prices, production and reserves, future costs and discount rates. Gas prices in the near term are forecast based on market prices less deductions under the INA contract, before reverting to market prices with reference to the forward curve following the approval of the IPPC permit and transition to gas sales taking place into the Slovenian market. The forecasts include future well workovers to access the reserves included in the model together with the wider estimated field development costs to access field reserves. Refer to Note 9. The impairment test demonstrates headroom despite the underperformance of Pg-11A being an indicator of impairment.

(f) Depreciation of property, plant and equipment - during the prior year we began to depreciate the assets associated with current production. The depreciation on a unit of production basis requires judgment and estimation in terms of the applicable reserves over which the assets are depreciated and the extent to which future capital expenditure is included in the depreciable cost when such expenditure is required to extract the reserve base. The calculations have been based on actual production, estimates of P50 reserves and best estimate resources the estimated future workover costs on the producing wells to extract this reserve. The depreciation charge for the year was £793,000 (2017: £239,000) including both depreciation associated with the unit of production method and straight line charges for existing processing infrastructure. This is included in Notes 9 and 10 below.

(g) Deferred tax – judgment has been required in assessing the extent to which a deferred tax asset is recorded, or not recorded, in respect of the Slovenian operations. Noting the history of taxable losses and the initial phases of production, together with assessment of budgets and forecasts of tax in 2019 the Board has concluded that no deferred tax asset is yet applicable. This is included at Note 7.

(h) Intercompany receivables – following the introduction of IFRS 9 the Board has carried out an assessment of the potential future credit loss on intercompany receivables under a number of scenarios. The Company would suffer a credit loss where the permits necessary for the development of the field are not obtained and a court case for damages against the Republic of Slovenia is unsuccessful. Based on legal advice received in relation to the permit process and the strength of our case we consider the risk of credit loss to be relatively remote. A provision of £1.7m (€1.9 million) has been recognised in the Company accounts.

**Basis of consolidation**

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

The results of undertakings acquired or disposed of are consolidated from or to the date when control passes to or from the Group. The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Income Statement from the date that control commences until the date that control ceases.

Where necessary, adjustments are made to the results of subsidiaries to bring the accounting policies they use into line with those used by the Group.

**Business combinations**

On acquisition, the assets, liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over net fair values of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the net fair values of the identifiable assets, liabilities and contingent liabilities acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

**Joint arrangements**

The Group is party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either joint ventures, where the Group has rights to only the net assets of the joint arrangement, or joint operations where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

All of the Group's joint arrangements are classified as joint operations. The Group accounts for its interests in joint operations by recognising its assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

The Group has one joint arrangement as disclosed on page 9, the Petišovci joint venture in Slovenia in which Ascent Slovenia Limited (a 100% subsidiary of Ascent Resources plc) has a 75% working interest.

**Oil and Gas Exploration Assets**

All licence/project acquisitions, exploration and appraisal costs incurred or acquired on the acquisition of a subsidiary, are accumulated in respect of each identifiable project area. These costs, which are classified as intangible fixed assets are only carried forward to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Pre-licence/project costs are written off immediately. Other costs are also written off unless commercial reserves have been established or the determination process has not been completed. Thus, accumulated cost in relation to an abandoned area are written off in full to the statement of comprehensive income in the year in which the decision to abandon the area is made.

**Transfer of exploration assets to property, plant and equipment**

Assets, including licences or areas of licences, are transferred from exploration and evaluation cost pools to property, plant and equipment when the existence of commercially feasible reserves have been determined and the Group concludes that the assets can generate commercial production. This assessment considers factors including the extent to which reserves have been established, the production levels and margins associated with such production. The costs transferred comprise direct costs associated with the relevant wells and infrastructure, together with an allocation of the wider unallocated exploration costs in the cost pool such as original acquisition costs for the field. The producing assets start to be depreciated following transfer.

**Depreciation of property plant and equipment**

The cost of production wells is depreciated on a unit of production basis. The depreciation charge is calculated based on total costs incurred to date plus anticipated future workover expenditure required to extract the associated gas reserves. This depreciable asset base is charged to the income statement based on production in the period over their expected lifetime P50 production extractable from the wells per the field plan.

The infrastructure associated with export production is depreciated on a straight-line basis over a two-year period as this is the anticipated period over which this infrastructure will be used.

**Impairment of oil and gas exploration assets**

Exploration/appraisal assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist.

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

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

If any such facts or circumstances are noted, the Group, as a next step, perform an impairment test in accordance with the provisions of IAS 36. In such circumstances the aggregate carrying value of the oil and gas exploration and assets is compared against the expected recoverable amount of the cash generating unit. The recoverable amount is the higher of value in use and the fair value less costs to sell.

The Group has identified one cash generating unit, the wider Petišovci project in Slovenia. Any impairment arising is recognised in the Income Statement for the year.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying values or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

**Impairment of development and production assets and other property, plant and equipment**

At each balance sheet date, the Group reviews the carrying amounts of its PP&E to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell (otherwise referred to as fair value less cost to develop in the oil and gas sector) and value in use.. Fair value less costs to sell is determined by discounting the post-tax cash flows expected to be generated by the cash-generating unit, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value including future capital expenditure and development cost for extraction of the field reserves. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

**Decommissioning costs**

Where a material obligation for the removal of wells and production facilities and site restoration at the end of the field life exists, a provision for decommissioning is recognised. The amount recognised is the net present value of estimated future expenditure determined in accordance with local conditions and requirements. An asset of an amount equivalent to the provision is also added to oil and gas exploration assets and depreciated on a unit of production basis once production begins. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated asset.

**Foreign currency**

The Group's strategy is focussed on developing oil and gas projects across Europe funded by shareholder equity and other financial assets which are principally denominated in sterling. The functional currency of the Company is sterling.

Transactions in foreign currency are translated to the respective functional currency of the Group entity at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the reporting date. Exchange gains and losses on short-term foreign currency borrowings and deposits are included with net interest payable.

The assets and liabilities of foreign operations are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at the average rate ruling during the period. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity. Foreign exchange differences arising on inter-company loans considered to be permanent as equity are recorded in equity. The exchange rate from euro to sterling at 31 December 2018 was £1: €1.1126 (2017: £1: €1.1262).

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

Exchange differences on all other transactions, except inter-company foreign currency loans, are taken to operating loss.

**Taxation**

The tax expense represents the sum of the tax currently payable and any deferred tax.

The tax currently payable is based on the estimated taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the expected tax rate applicable to annual earnings.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is 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 asset to be recovered.

**Equity-settled share-based payments**

The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the related share options or share allocations. The cost is based on the fair values of the options and shares allocated determined using the binomial method. The value of the charge is adjusted to reflect expected and actual levels of vesting. Charges are not adjusted for market related conditions which are not achieved. Where equity instruments are granted to persons other than directors or employees the Consolidated Income Statement is charged with the fair value of any goods or services received.

Grants of options in relation to acquiring exploration assets in licence areas are treated as additions to Slovenian exploration costs at Group level and increases in investments at Company level.

**Provisions**

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**Convertible loan notes**

Upon issue of a new convertible loan, where the convertible option is at a fixed rate, the net proceeds received from the issue of CLNs are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the CLNs and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not re-measured.

Subsequent to the initial recognition the liability component is measured at amortised cost using the effective interest method.

When there are amendments to the contractual loan note terms these terms are assessed to determine whether the amendment represents an inducement to the loan note holders to convert. If this is considered to be the case the estimate of fair value adjusted as appropriate and any loss arising is recorded in the income statement.

Where there are amendments to the contractual loan note terms that are considered to represent a modification to the loan note, without representing an inducement to convert, the Group treats the transaction as an extinguishment of the existing convertible loan note and replaces the instrument with a new convertible loan note. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The fair value of the conversion right is recorded as an increase in equity. The previous equity reserve is reclassified to retained loss. Any gain or loss arising on the extinguishment of the instrument is recorded in the income statement, unless the transaction is with a counterparty considered to be acting in their capacity as a shareholder whereby the gain or loss is recorded in equity.

Where the loan note is converted into ordinary shares by the loan note holder; the unaccreted portion of the loan notes is transferred from the equity reserve to the liability; the full liability is then converted into share capital and share premium based on the conversion price on the note.

**Non-derivative financial instruments**

Non-derivative financial instruments comprise of investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

**Financial instruments**

*Classes and categories*

Financial assets that meet the following conditions are measured subsequently at amortised cost using effective interest rate method:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets-Recognition and derecognition

The settlement date is used for initial recognition and derecognition of financial assets as these transactions are generally under contracts whose terms require delivery within the time frame established in the contract. Financial assets are derecognised when substantially all the Groups rights to cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risk and rewards of ownership.

*Measurement*

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

*Impairment*

The Group recognises a loss allowance for expected credit losses on financial assets which are measured at amortised cost. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a twelve-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next twelve months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

Lifetime expected credit losses (ECLs) for intercompany loan receivables are based on the assumptions that repayment of the loans are demanded at the reporting date due to the fact that the loan is contractually repayable on demand. The subsidiaries do not have sufficient funds in order to repay the loan if demanded and therefore the expected manner of recovery to measure lifetime expected credit losses is considered. A range of different recovery strategies and credit loss scenarios are evaluated using reasonable and supportable external and internal information to assess the likelihood of recoverability of the balance under these scenarios.

*Financial liabilities at amortised costs*

Financial liabilities are initially recognised at fair value net of transaction costs incurred. Subsequent to initial measurement financial liabilities are recognised at amortised costs. The difference between initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method. This category includes the following classes of the financial liabilities, trade and other payables, bonds and other financial liabilities. Financial liabilities at amortised costs are classified as current or non-current depending whether these are due within 12 months after the balance sheet date or beyond.

Financial liabilities are derecognised when either the Group is discharged from its obligation, they expire, are cancelled, or replaced by a new liability with substantially modified terms.

**Equity**

Equity instruments issued by the Company are recorded at the proceeds received, net of any direct issue costs.

**Investments and loans**

Shares and loans in subsidiary undertakings are shown at cost. Provisions are made for any impairment when the fair value of the assets is assessed as less than the carrying amount of the asset. Inter-company loans are repayable on demand but are included as non-current as the realisation is not expected in the short term.

**Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer ('CEO').

**Revenue recognition**

Sales represent amounts received and receivable from third parties for goods and services rendered to the costumers. Sales are recognised when control of the goods has transferred to the customer, which is at the border to Croatia under the contract and is recorded at this point. Condensate, which is collected at a separating station and transported via trucks to a customer in Hungary is recorded on delivery according the terms of the contract. At this point in time, the performance obligation is satisfied in full with title, risk, entitlement to payment and customer possession confirmed. Revenue is measured as the amount of consideration which the Group expects to receive, based on the market price for gas and condensate after deduction of costs agreed per the Restated Joint Operating Agreement ("RJOA") and sales taxes.

Revenue is derived from the production of hydrocarbons under the Petišovci Concession, which Ascent Slovenia Limited holds a 75% working interest. Under the terms of the RJOA, and in accordance with Slovenian law, the concession holder retains the rights to all hydrocarbons produced. The concession holder enters into sales agreements with customers and transfers the relevant portion of hydrocarbon sales to Ascent Slovenia Limited for the services it provides under the RJOA.

Payments are typically received around 30 days from the end of the month during which delivery has occurred. There are no balances of accrued or deferred revenue at the balance sheet date.

Under the RJOA, the Group is entitled to 90% of the revenues until 25% of Investments in the Petišovci area have been recovered and the Group records revenue on the entitlement basis accordingly.

Credit terms are agreed per RJOA contract and are short term, without any financing component.

The Group has no sales returns or reclamations of services since it has only one costumer. Sales are disaggregated by geography.

## 2 Segmental Analysis

The Group has two reportable segments, an operating segment and a head office segment, as described below. The operations and day to day running of the business are carried out on a local level and therefore managed separately. The operating segment reports to the UK head office which evaluates performance, decide how to allocate resources and make other operating decisions such as the purchase of material capital assets and services. Internal reports are generated and submitted to the Group's CEO for review on a monthly basis.

The operations of the Group as a whole are the exploration for, development and production of oil and gas reserves.

The two geographic reporting segments are made up as follows:

| | | |
|---|---|---|
| Slovenia | - | exploration, development and production |
| UK | - | head office |

The costs of exploration and development works are carried out under shared licences with joint ventures and subsidiaries which are co-ordinated by the UK head office. Segment revenue, segment expense and segment results include transfers between segments. Those transfers are eliminated on consolidation. Information regarding the current and prior year's results for each reportable segment is included below.

A single customer accounted for 84% of total revenues for the year and is disclosed within the Slovenia segment below.

| 2018 | UK<br>£ '000s | Slovenia<br>£ '000s | eliminations<br>£ '000s | Total<br>£ '000s |
|---|---|---|---|---|
| Hydrocarbon sales | - | 1,942 | | **1,942** |
| Intercompany sales | 1,356 | 428 | (1,784) | **-** |
| **Total revenue** | **1,356** | **2,370** | **(1,784)** | **1,942** |
| Cost of sales | - | (771) | | **(771)** |
| Administrative expenses | (1,093) | (1,252) | 585 | **(1,760)** |
| **Material non-cash items** | | | | |
| Depreciation | - | (793) | - | **(793)** |
| Net finance costs | 23 | (1,205) | 1,199 | **17** |
| **Reportable segment (loss)/profit before tax** | **286** | **(1,651)** | **-** | **(1,365)** |
| Taxation | - | - | - | **-** |
| **Reportable segment (loss)/profit after taxation** | **286** | **(1,651)** | **-** | **(1,365)** |
| **Reportable segment assets** | | | | |
| Carrying value of exploration assets | - | 18,587 | - | **18,587** |
| Additions to exploration assets | - | 319 | - | **319** |
| Effect of exchange rate movements | - | 62 | - | **62** |
| Total plant and equipment | 1 | 23,778 | - | **23,779** |
| Prepaid abandonment fund | - | 240 | - | **240** |
| Investment in subsidiaries | 15,443 | **-** | (15,443) | **-** |
| Intercompany receivables | 32,713 | **-** | (32,713) | **-** |
| **Total non-current assets** | **48,157** | **42,986** | **(48,156)** | **42,987** |
| Other assets | 303 | 489 | - | **792** |
| **Consolidated total assets** | **48,460** | **43,475** | **(48,156)** | **43,779** |
| **Reportable segmental liabilities** | | | | |
| Trade payables | (53) | (229) | - | **(282)** |
| External loan balances | (44) | - | - | **(44)** |
| Inter-group borrowings | - | (34,410) | 34,410 | **-** |
| Other liabilities | (71) | (302) | - | **(373)** |
| **Consolidated total liabilities** | **(168)** | **(34,941)** | **34,410** | **(699)** |

| 2017 | UK<br>£ '000s | Slovenia<br>£ '000s | eliminations<br>£ '000s | Total<br>£ '000s |
|---|---|---|---|---|
| Hydrocarbon sales | - | 814 | - | **814** |
| Intercompany sales | 1,601 | | (1,601) | **-** |
| **Total revenue** | **1,601** | **814** | **(1,601)** | **814** |
| Cost of sales | - | (403) | - | **(403)** |
| Administrative expenses | (1,148) | (1,292) | 649 | **(1,791)** |
| **Material non-cash items** | | | | |
| Depreciation | - | (239) | - | **(239)** |
| Net finance costs | (337) | (1,282) | 1,272 | **(347)** |
| **Reportable segment (loss)/profit before tax** | **116** | **(2,402)** | **320** | **(1,966)** |
| Taxation | - | - | - | **-** |
| **Reportable segment (loss)/profit after taxation** | **116** | **(2,402)** | **320** | **(1,966)** |
| **Reportable segment assets** | | | | |
| Carrying value of exploration assets | - | 37,541 | - | **37,541** |
| Additions to exploration assets | - | 4,544 | - | **4,544** |
| Decrease in decommissioning asset | - | (199) | - | **(199)** |
| Transfers to plant & equipment | - | (24,092) | - | **(24,092)** |
| Effect of exchange rate movements | - | 793 | - | **793** |
| Total plant & equipment | 3 | 23,899 | - | **23,902** |
| Prepaid abandonment fund | - | 279 | - | **279** |
| Investment in subsidiaries | 15,443 | **-** | (15,443) | **-** |
| Intercompany receivables | 32,447 | **-** | (32,447) | **-** |
| **Total non-current assets** | **47,893** | **42,765** | **-** | **42,768** |
| Other assets | 1,110 | 731 | - | **1,841** |
| **Consolidated total assets** | **49,003** | **43,496** | **(47,890)** | **44,609** |
| **Reportable segmental liabilities** | | | | |
| Trade payables | (92) | (338) | - | **(430)** |
| External loan balances | (36) | - | - | **(36)** |
| Inter-group borrowings | - | (32,447) | 32,447 | **-** |
| Other liabilities | (82) | (330) | - | **(412)** |
| **Consolidated total liabilities** | **(210)** | **(33,115)** | **32,447** | **(878)** |

*Revenue from customers*

Revenue was earned by the Slovenian segment through the joint venture structure; sales were made to end customers in Slovenia £178,000; Croatia £1,633,000 and Hungary £131,000 (2017: Slovenia £294,000, Croatia £489,000 and Hungary £32,000). Gas sales comprised £1,811,000 (2017: £783,000) whilst condensate sales totalled £131,000 (2017: £32,000). The performance obligations are set out in the Group's revenue recognition policy and no outstanding performance obligations existed at year end. The price for the sale of gas and condensate is set with reference to the market price at the date the performance obligation is satisfied.

## 3 Operating loss is stated after charging:

| | **Year ended 31 December 2018 £ '000s** | Year ended 31 December 2017 £ '000s |
|---|---|---|
| Employee costs | 653 | 797 |
| Share based payment charge | 402 | 235 |
| Foreign Exchange differences | - | - |
| **Included within Admin Expenses** | | |
| Audit Fees | 72 | 73 |
| Fees payable to the company's auditor other services | - | - |
| | **72** | **73** |

## 4 Employees and directors

### a. Employees

The average number of persons employed by the Group, including Executive Directors, was:

| | **Year ended 31 December 2018** | Year ended 31 December 2017 |
|---|---|---|
| Management and technical | **8** | 9 |

### b. Directors and employee's remuneration

| **Employees & Executive Directors** | **Year ended 31 December 2018 £ '000s** | Year ended 31 December 2017 £ '000s |
|---|---|---|
| Wages and salaries | 570 | 687 |
| Social security costs | 37 | 64 |
| Pension costs | 41 | 44 |
| Share-based payments | 423 | 235 |
| Taxable benefits | 2 | 2 |
| | **1,073** | 1,032 |

### c. Directors remuneration

| | **Salary/fees** | **Bonus*** | **Pension** | **Total** | **Share Based Payments expense** | **Employers NIC** |
|---|---|---|---|---|---|---|
| **2018** | £ | £ | £ | £ | £ | £ |
| **Executive Directors** | | | | | | |
| C Hutchinson | 158,900 | - | 904 | 159,804 | 199,543 | 19,825 |
| **Non-executive Directors** | | | | | | |
| C Carver | 43,333 | - | - | 43,333 | 79,817 | 5,737 |
| C Davies | 21,667 | - | - | 21,667 | 39,909 | 2,287 |
| N Moore | 21,667 | - | - | 21,667 | 39,909 | 2,070 |
| **Total** | **245,567** | **-** | **904** | **246,471** | **359,178** | **29,919** |

| | Salary/fees | Bonus* | Pension | Total | Share Based Payments expense | Employers NIC |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **Executive Directors** | | | | | | |
| C Hutchinson | 164,471 | 51,750 | 760 | 216,981 | 65,445 | 28,653 |
| **Non-executive Directors** | | | | | | |
| C Carver | 73,875 | 30,000 | - | 103,875 | 26,178 | 2,813 |
| C Davies | 37,192 | 15,000 | - | 52,192 | 13,089 | 6,076 |
| N Moore | 37,192 | 15,000 | - | 52,192 | 13,089 | 6,076 |
| **Total** | **312,730** | **111,750** | **760** | **425,239** | **117,801** | **43,618** |

* Bonuses were payable on achieving first gas sales.

The highest paid Director in the year ended 31 December 2018 was Colin Hutchinson earning £159,804 (2017: C Hutchinson earning £216,981). Colin Hutchinson is a member of the defined contribution pension scheme which commenced in December 2017; contributions during the year were £904 (2017: £760).

**d. Directors' incentive share options**

| 2018 | Opening | Granted/ (Lapsed) | Closing | Date Granted | Share Price at Grant | Exercise Price | Exercise Period Start | End |
|---|---|---|---|---|---|---|---|---|
| C Carver | 1,328,443 | - | 1,328,443 | 30-Apr-13 | 16.4p | 20p | 30-Apr-16 | 30-Apr-23 |
| C Carver | 13,985,884 | - | 13,985,884 | 05-May-16 | 1.58p | 1.58p | 05-May-19 | 06-May-26 |
| C Carver | 13,612,502 | - | 13,612,502 | 07-Nov-17 | 1.975p | 1.975p | 06-Nov-20 | 08-Nov-27 |
| C Hutchinson | 265,688 | - | 265,688 | 23-May-13 | 16.4p | 20p | 23-May-16 | 23-May-23 |
| C Hutchinson | 34,964,709 | - | 34,964,709 | 05-May-16 | 1.58p | 1.58p | 05-May-19 | 06-May-26 |
| C Hutchinson | 34,031,255 | - | 34,031,255 | 07-Nov-17 | 1.975p | 1.975p | 06-Nov-20 | 08-Nov-27 |
| N Moore | 6,992,942 | - | 6,992,942 | 05-May-16 | 1.58p | 1.58p | 05-May-19 | 06-May-26 |
| N Moore | 6,806,251 | - | 6,806,251 | 07-Nov-17 | 1.975p | 1.975p | 06-Nov-20 | 08-Nov-27 |
| C Davies | 6,992,942 | - | 6,992,942 | 05-May-16 | 1.58p | 1.58p | 05-May-19 | 06-May-26 |
| C Davies | 6,806,251 | - | 6,806,251 | 07-Nov-17 | 1.975p | 1.975p | 06-Nov-20 | 08-Nov-27 |

| 2017 | Opening | Granted/ (Lapsed) | Closing | Date Granted | Share Price at Grant | Exercise Price | Exercise Period Start | End |
|---|---|---|---|---|---|---|---|---|
| C Carver | 1,328,443 | - | 1,328,443 | 30-Apr-13 | 16.4p | 20p | 30-Apr-16 | 30-Apr-23 |
| C Carver | 13,985,884 | - | 13,985,884 | 05-May-16 | 1.58p | 1.58p | 05-May-19 | 06-May-26 |
| C Carver | - | 13,612,502 | 13,612,502 | 07-Nov-17 | 1.975p | 1.975p | 06-Nov-20 | 08-Nov-27 |
| C Hutchinson | 265,688 | - | 265,688 | 23-May-13 | 16.4p | 20p | 23-May-16 | 23-May-23 |
| C Hutchinson | 34,964,709 | - | 34,964,709 | 05-May-16 | 1.58p | 1.58p | 05-May-19 | 06-May-26 |
| C Hutchinson | - | 34,031,255 | 34,031,255 | 07-Nov-17 | 1.975p | 1.975p | 06-Nov-20 | 08-Nov-27 |
| N Moore | 6,992,942 | - | 6,992,942 | 05-May-16 | 1.58p | 1.58p | 05-May-19 | 06-May-26 |
| N Moore | - | 6,806,251 | 6,806,251 | 07-Nov-17 | 1.975p | 1.975p | 06-Nov-20 | 08-Nov-27 |
| C Davies | 6,992,942 | - | 6,992,942 | 05-May-16 | 1.58p | 1.58p | 05-May-19 | 06-May-26 |
| C Davies | - | 6,806,251 | 6,806,251 | 07-Nov-17 | 1.975p | 1.975p | 06-Nov-20 | 08-Nov-27 |

## 5 Finance income and costs recognised in the year

| | **Year ended 31 December 2018 £ '000s** | Year ended 31 December 2017 £ '000s |
|---|---|---|
| **Finance income** | | |
| Foreign exchange movements realised | 1 | - |
| Other income | 25 | - |
| | **26** | - |
| | | |
| **Finance costs** | | |
| Accretion charge on convertible loan notes | (8) | (241) |
| Foreign exchange movements realised | - | (94) |
| Bank charges | (1) | (12) |
| | **(9)** | **(347)** |

Please refer to Note 14 for a description of financing activity during the year.

## 6 Income tax expense

| | **Year ended 31 December 2018 £ '000s** | Year ended 31 December 2017 £ '000s |
|---|---|---|
| Current tax expense | - | - |
| Deferred tax expense | - | - |
| Total tax expense for the year | - | - |

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

| | **Year ended 31 December 2018 £ '000s** | Year ended 31 December 2017 £ '000s |
|---|---|---|
| **Loss for the year** | (1,365) | (1,966) |
| Income tax using the Company's domestic tax rate at 19 % (2017: 19%) | (259) | (374) |
| Effects of: | | |
| Net increase in unrecognised losses carried forward | 257 | 273 |
| Effect of tax rates in foreign jurisdictions | 36 | 40 |
| Other non-taxable items | (34) | (98) |
| Other non-deductible expenses | - | 159 |
| **Total tax expense for the year** | - | - |

## 7 Deferred tax – Group & Company

| | **2018 £ '000s** | **2017 £ '000s** |
|---|---|---|
| **Group** | | |
| Total tax losses – UK and Slovenia | (36,684) | (37,080) |
| Unrecorded deferred tax asset at 17% (2017: 17%) | **6,236** | **6,304** |
| | | |
| **Company** | | |
| Total tax losses | (11,829) | (10,912) |
| Unrecorded deferred tax asset at 17% (2017: 17%) | **2,011** | **1,855** |

No deferred tax asset has been recognised in respect of the tax losses carried forward. Refer to critical accounting estimates and judgments

## 8 Loss per share

| | **31 December 2018 £ '000s** | 31 December 2017 £ '000s |
|---|---|---|
| **Result for the year** | | |
| Total loss for the year attributable to equity shareholders | **(1,365)** | (1,966) |
| **Weighted average number of ordinary shares** | **Number** | Number |
| For basic earnings per share | 2,270,968,177 | 1,877,070,907 |
| **Loss per share (Pence)** | (0.06) | (0.10) |

As the result for the year was a loss, the basic and diluted loss per share are the same. At 31 December 2018, potentially dilutive instruments in issue were 184,883,861 (2017: 207,383,681). Dilutive shares arise from share options and CLNs issued by the Company and from the deferred consideration on the Trameta transaction.

## 9 Property, Plant & Equipment – Group

| | Computer Equipment | Developed Oil & Gas Assets | Total |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2017** | 4 | - | 4 |
| Additions | 2 | 43 | 45 |
| Transfer from Exploration | - | 24,092 | 24,092 |
| **At 31 December 2017** | **6** | **24,135** | **24,141** |
| **At 1 January 2018** | **6** | **24,135** | **24,141** |
| Additions | - | 411 | 411 |
| Effect of exchange rate movements | - | 262 | 262 |
| **At 31 December 2018** | **6** | **24,808** | **24,814** |
| | | | |
| **Depreciation** | | | |
| **At 1 January 2017** | - | - | - |
| Charge for the year | - | (239) | (239) |
| **At 31 December 2017** | **-** | **(239)** | **(239)** |
| **At 1 January 2018** | **-** | **(239)** | **(239)** |
| Charge for the year | | (793) | (793) |
| Effect of exchange rate movements | | (3) | (3) |
| **At 31 December 2018** | **-** | **(1,035)** | **(1,035)** |
| | | | |
| **Carrying value** | | | |
| At 31 December 2018 | **6** | **23,773** | **23,779** |
| At 31 December 2017 | 6 | 23,896 | 23,902 |
| At 1 January 2017 | 4 | - | 4 |

No impairment has been recognised during the year, this assumes that the Group can obtain the necessary environmental permits and the concession extension due in 2022 to continue with the planned development of the Petišovci field. Details of the impairment judgments and estimates and the fair value less cost to develop assessment as set out in Note 1. Should the permits not be granted, or the concession extension confirmed, the carrying value of these assets would be impaired.

## 10 Exploration and evaluation assets – Group

| | Slovenia | Total |
|---|---|---|
| **Cost** | | |
| **At 1 January 2017** | 37,541 | 37,541 |
| Additions | 4,544 | 4,544 |
| Transfer to PPE | (24,092) | (24,092) |
| Adjustment to decommissioning asset | (199) | (199) |
| Effects of exchange rate movements | 793 | 793 |
| **At 31 December 2017** | **18,587** | **18,587** |
| **At 1 January 2018** | 18,587 | 18,587 |
| Additions | 319 | 319 |
| Effects of exchange rate movements | 62 | 62 |
| **At 31 December 2018** | **18,968** | **18,968** |
| | | |
| **Carrying value** | | |
| At 31 December 2018 | **18,968** | **18,968** |
| At 31 December 2017 | 18,587 | 18,587 |
| At 1 January 2017 | 37,541 | 37,541 |

During the prior year the Company brought Pg-10 and Pg-11A into commercial production and therefore transferred the related costs from exploration assets to property, plant & equipment to reflect to producing nature of the assets. The total historic costs for Pg-10 and Pg-11A and the cost of the infrastructure related to export gas production, together with an apportionment of past exploration costs has been transferred from exploration to property plant and equipment. The apportionment of past historic costs was allocated to wells Pg-10 and Pg-11A based on their expected contribution to total field production.

For the purposes of impairment testing the intangible oil and gas assets are allocated to the Group's cash-generating unit, which represent the lowest level within the Group at which the intangible oil and gas assets are measured for internal management purposes, which is not higher than the Group's operating segments as reported in Note 0. Details of the impairment judgments and estimates and the fair value less cost to develop assessment as set out in Note 1.

In the prior year, the Company accounted for the Trameta transaction as the acquisition of land and pipeline rights. relating to the exploration project. This fair value of consideration was £1.1 million, see Note 03.

The amounts for intangible exploration assets represent costs incurred on active exploration projects. Amounts capitalised are assessed for impairment indicators under IFRS 6 at each period end as detailed in the Group's accounting policy. In addition, the Group routinely reviews the economic model and reasonably possible sensitivities and considers whether there are indicators of impairment. As at 31 December 2018 and 2017 the net present value significantly exceeded the carrying value of the assets. The key estimates associated with the economic model net present value are detailed in Note 1. The outcome of ongoing exploration, and therefore whether the carrying value of intangible exploration assets will ultimately be recovered, is inherently uncertain.

## 11 Investment in subsidiaries – Company

| | £000s |
|---|---|
| **At 1 January 2017, 31 December 2017 & 31 December 2018** | **15,443** |

| Name of company | Principal activity | Country of incorporation | % of share capital held 2018 | % of share capital held 2017 |
|---|---|---|---|---|
| Ascent Slovenia Limited<br>Tower Gate Place<br>Tal-Qroqq Street<br>Msida, Malta | Oil and Gas exploration | Malta | 100% | 100% |
| Ascent Resources doo<br>Glavna ulica 7<br>9220 Lendava<br>Slovenia | Oil and Gas exploration | Slovenia | 100% | 100% |
| Trameta doo<br>Glavna ulica 7<br>9220 Lendava<br>Slovenia | Infrastructure owner | Slovenia | 100% | 100% |
| Ascent Resources Netherlands BV<br>c/o Ascent Resources plc<br>5 New Street Square<br>London EC4A 3TW | Oil and Gas exploration | Netherlands | 100% | 100% |

All subsidiary companies are held directly by Ascent Resources plc.

## 12 Trade and other receivables – Group

| | 2018<br>£ '000s | 2017<br>£ '000s |
|---|---|---|
| Trade receivables | **198** | 655 |
| VAT recoverable | **29** | 72 |
| Prepaid abandonment deposit | **240** | 279 |
| Prepayments | **6** | 36 |
| | **473** | 1,042 |
| Less non-current portion | **(240)** | (279) |
| **Current portion** | **233** | 763 |

## 13 Trade and other receivables – Company

| | 2018<br>£ '000s | 2017<br>£ '000s |
|---|---|---|
| VAT recoverable | **5** | 19 |
| Prepayments | **6** | 36 |
| | **11** | 55 |

## 14 Borrowings – Group & Company

| **Group** | 2018<br>£ '000s | 2017<br>£ '000s |
|---|---|---|
| ***Non-current*** | | |
| Convertible loan notes | **44** | 36 |
| | **44** | 36 |

**Company**
***Non-current***

| | | |
|---|---|---|
| Convertible loan notes | **44** | 36 |
| | **44** | 36 |

| **Convertible Loan Note** | **2018** | **2017** |
|---|---|---|
| | **£ '000s** | **£ '000s** |
| Liability brought forward | **36** | 6,162 |
| Interest expense | **8** | 241 |
| Converted notes | **-** | (6,367) |
| **Liability at 31 December** | **44** | 36 |

The only transactions relating to the convertible loan notes during 2018 was one conversion request in which the loan notes were converted to equity. The transactions during 2017 and the background to the notes is also covered below:

**(i) Conversions**

There were a number of loan note conversions carried out during the periods:

| | **Loan notes converted including accrued interest*** | | **Shares issued** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£** | **£** | **No.** | **No.** |
| January | - | - | - | - |
| February | 603 | 2,652,107 | 60,366 | 265,210,704 |
| March | - | 1,597,018 | - | 159,701,787 |
| April | - | 1,581,609 | - | 158,160,880 |
| May | - | 69,709 | - | 6,970,931 |
| June | - | 325 | - | 32,548 |
| July | - | 3,117,137 | - | 311,713,705 |
| August | - | - | - | - |
| September | - | - | - | - |
| October | - | - | - | - |
| November | - | - | - | - |
| December | - | - | - | - |
| | **603** | **9,017,905** | **60,366** | **901,790,555** |

* The amounts stated represent the loan note principal and accumulated coupon interest rather than the amortised cost of the loan notes under IFRS after the impact of discounting to fair value at inception and subsequent accretion. The amortised cost of the converted loan notes was £44,000 representing £49,706 less the unamortised cost adjustment of £5,358.

In 2017 the amortised cost of the converted loan notes was £6,367,000 representing £9,017,906 less the unamortised cost adjustment of £2,650,906. On conversion, the amount recorded in equity at inception of £3,131,000 has been transferred to retained earnings from the equity reserve.

**(ii) Background**

The balance at 31 December 2018 relates to the residual balance of the 2013 convertible loan notes which are convertible at the discretion of the holder into Ordinary shares at 100 Ordinary shares per £1 principal of loan note.

The Group issued £5 million of 9 per cent 2013 CLNs during 2012 and 2013, convertible at any time at the discretion of the holder, into Ordinary Shares at 200 Ordinary Shares per £1 principal of loan note, an effective conversion price of between 0.1p and 0.5p per Ordinary share depending on whether the balance could be sold to independent third-party investors. The CLNs were due to mature in January 2015.

On 5 February 2014, the Group agreed with Henderson to create a new £5 million class of 9 per cent CLNs with a maturity date of December 2014, convertible at any time at the discretion of the holder, into Ordinary Shares at 100 Ordinary Shares per £1 principal of loan note, an effective conversion price of 1 pence per Ordinary share. The first £2 million available under these 2014 CLNs was drawn immediately with the balance intended for sale to independent third-party investors, with the intention that the pricing of all the 2014 CLNs would be reset to the lowest price paid by these new investors.

These convertible loan notes were subsequently subject to various variations in terms and extensions through to 2016.

## 15 Provisions – Group

**£000s**

| | £ '000s |
|---|---|
| **At 1 January 2017** | **447** |
| Adjustment to the decommissioning provision | (199) |
| Foreign exchange movement | 18 |
| **At 31 December 2017** | **266** |
| **At 1 January 2018** | **266** |
| Foreign exchange movement | (3) |
| **At 31 December 2018** | **263** |

The amount provided for decommissioning costs represents the Group's share of site restoration costs for the Petišovci field in Slovenia. The most recent estimate is that the year-end provision will become payable after 2037. During the prior year the Company has placed €300,000 (£279,000) on deposit as collateral against this liability see Note 12.

## 16 Trade and other payables – Group

| | **2018** | **2017** |
|---|---|---|
| | **£ '000s** | **£ '000s** |
| Trade payables | 282 | 430 |
| Tax and social security payable | 15 | 30 |
| Other payables | 29 | 19 |
| Accruals | 66 | 97 |
| | **392** | **576** |

## 17 Trade and other payables – Company

| | **2018** | **2017** |
|---|---|---|
| | **£ '000s** | **£ '000s** |
| Trade payables | 53 | 92 |
| Tax and social security payable | 3 | 16 |
| Other payables | 9 | - |
| Accruals | 59 | 66 |
| | **124** | **174** |

## 18 Called up share capital

| | 2018<br>£ '000s | 2017<br>£ '000s |
|---|---|---|
| **Authorised** | | |
| 10,000,000,000 ordinary shares of 0.10p each | 10,000 | 10,000 |
| **Allotted, called up and fully paid** | | |
| 2,291,310,686 (2017: 2,268,750,320) ordinary shares of 0.2pence each (2017: 0.2p each) | 6,146 | 6,101 |

| **Reconciliation of share capital movement** | **2018**<br>**Number** | 2017<br>Number |
|---|---|---|
| **At 1 January** | **2,268,750,320** | 1,084,074,224 |
| Loan note conversions | **60,366** | 901,790,555 |
| Issue of Trameta consideration shares | **22,500,000** | 25,000,000 |
| Placings | - | 257,885,541 |
| **At 31 December** | **2,291,310,686** | 2,268,750,320 |

**Shares issued during the year**

There was one conversion request processed during the year; for the details see Note 14.

**Shares issued during the prior year**

There were a number of conversion requests processed during the year; for the details see Note 14.

The Company also raised funds through placings during the year:

- On 13 February 2017, the Company raised £2,987,500 (£2,838,363 net of costs) via the Placing of 161,500,000 Ordinary Shares with investors using the PrimaryBid.com platform.
- On 27 October 2017, the Company raised £1,500,000 (£1,500,000 net of costs) via the Placing of 96,385,541 Ordinary Shares with investors using the PrimaryBid.com platform.

**Reserve description and purpose**

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

- Share capital: Amount subscribed for share capital at nominal value.
- Merger reserve: Value of shares, in excess of nominal value, issued with respect of the Trameta acquisition in 2016.
- Equity reserve: Amount of proceeds on issue of convertible debt relating to the equity component and contribution on modification of the convertible loan notes, i.e. option to convert the debt into share capital.
- Share premium: Amounts subscribed for share capital in excess of nominal value less costs of shares associated with share issues.
- Share-based payment reserve: Value of share options granted and calculated with reference to a binomial pricing model. When options lapse or are exercised, amounts are transferred from this account to retained earnings.
- Translation reserve: Exchange movements arising on the retranslation of net assets of operation into the presentation currency.
- Accumulated losses: Cumulative net gains and losses recognised in consolidated income.

## 19 Operating lease arrangements

At the balance sheet date, the Group had no outstanding commitments under non-cancellable operating leases (2017: £nil).

## 20 Exploration expenditure commitments

In order to maintain an interest in the oil and gas permits in which the Group is involved, the Group is committed to meet the conditions under which the permits were granted and the obligations of any joint operating agreements. The timing and the amount of exploration expenditure commitments and obligations of the Group are subject to the work programmes required as per the permit commitments. This may vary significantly from the forecast programmes based upon the results of the work performed. Drilling results in any of the projects may also cause variations to the forecast programmes and consequent expenditure. Such activity may lead to accelerated or decreased expenditure. It is the Group's policy to seek joint operating partners at an early stage to reduce its commitments.

At 31 December 2018, the Group had exploration and expenditure commitments of £ Nil (2017 - Nil).

## 21 Related party transactions

**a. Group companies – transactions**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | *Cash* | *Services* | *Total* | *Cash* | *Services* | *Total* |
| Ascent Slovenia Limited | 1,209 | 302 | 1,511 | 5,588 | 799 | 6,387 |
| Ascent Resources doo | - | 2 | 2 | 612 | - | 612 |
| Trameta doo | - | - | - | 9 | - | 9 |
| | **1,209** | **304** | **1,513** | **6,209** | **799** | **7,008** |

**b. Group companies – balances**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | *Cash* | *Services* | *Total* | *Cash* | *Services* | *Total* |
| Ascent Slovenia Limited | **23,303** | **4,455** | 27,758 | 23,450 | 4,104 | 27,554 |
| Ascent Resources doo | **3,118** | **1,828** | 4,946 | 3,078 | 1,806 | 4,884 |
| Trameta doo | **9** | **-** | 9 | 9 | - | 9 |
| | **26,430** | **6,283** | **32,713** | **26,537** | **5,910** | **32,447** |

Cash refers to funds advanced by the Company to subsidiaries. Services relates to services provided by the Company to subsidiaries. The loans are repayable on demand but are classified as non-current reflecting the period of expected ultimate recovery.

Following the introduction of IFRS 9 Management have carried out an assessment of the potential future credit loss the loans classified as 'stage 3' under IFRS 9 and assessed for lifetime expected credit loss given their on-demand nature under a number of scenarios. The Company would suffer a credit loss where the permits necessary for the development of the field are not obtained and a court case for damages against the Republic of Slovenia is unsuccessful. Based on legal advice received in relation to the permit process and the strength of our case we consider the risk of credit loss to be relatively remote. A provision of £1.7m (€1.9 million) has been recognised in the Company accounts.

**c. Directors**

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the Directors of Ascent Resources plc. Information regarding their compensation is given in Note 4.

**2018**

There were no transactions involving directors during the year.

**2017**

In February 2017, Colin Hutchinson subscribed for 270,270 Ordinary Shares as part of the Placing described in Note 18.

In November 2017, Colin Hutchinson acquired 300,000 Ordinary Shares in the market.

Clive Carver is a director of Darwin Strategic Limited, which is the owner of PrimaryBid through which the Company raised £4.5 million in equity during 2017. Refer to Note 18 for further share issues.

## 22 Events subsequent to the reporting period

On 14 January 2019, Clive Carver resigned from the Board and was replaced as Chairman by Cameron Davies.

On 20 January 2019 the Company raised £349,056 in an offer via the PrimaryBid platform at the price of 0.3 pence per ordinary share. A total of 121,052,097 shares were issued including 4,700,000 ordinary shares issued to suppliers at the same price. Colin Hutchinson, Chief Executive of the Company subscribed for 1,000,000 shares in the placing.

On 18 February 2019, Nigel Moore retired from the board while John Buggenhagen and Louis Castro were both appointed to the Board.

On 15 April 2019 the Company announced that it had received confirmation that the IPPC Permit was fully valid.

On 24 April 2019 the Company announced raised £750,000 in an oversubscribed placing of 214,285,714 Ordinary Shares of 0.2 pence each at a price of 0.35 pence per share.

On 29 April 2019 the Company extended the gas sales agreement under which untreated raw gas is sold to INA in Croatia until November 2019.

## 23 Share based payments

The Company has provided the Directors, certain employees and institutional investors with share options and warrants ('options'). Options are exercisable at a price equal to the closing market price of the Company's shares on the date of grant. The exercisable period varies and can be up to seven years once fully vested after which time the option lapses.

Details of the share options outstanding during the year are as follows:

| | **Shares** | **Weighted Average price (pence)** |
|---|---|---|
| Outstanding at 1 January 2018 | 152,576,254 | 2.38 |
| **Outstanding at 31 December 2018** | **152,576,254** | **2.38** |
| **Exercisable at 31 December 2018** | **5,685,738** | **20.00** |
| | | |
| Outstanding at 1 January 2017 | 84,513,744 | 2.86 |
| Granted during the year | 68,062,510 | 1.98 |
| **Outstanding at 31 December 2017** | **152,576,254** | **2.38** |
| **Exercisable at 31 December 2017** | **13,185,738** | **9.76** |

The value of the options is measured by the use of a binomial pricing model. The inputs into the binomial model made in 2017 were as follows. No options were issued in 2018 and so no equivalent table is disclosed for 2018

| | |
|---|---|
| Share price at grant date | 1.32p – 1.58p |
| Exercise price | 1.54p – 2.00p |
| Volatility | 50% |
| Expected life | 3-5 years |
| Risk free rate | 0.5% |
| Expected dividend yield | 0% |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 5 years. The expected life is the expiry period of the options from the date of issue.

Options outstanding at 31 December 2018 have an exercise price in the range of 1.58p and 20.00p (31 December 2017: 1.54p and 20.00p) and a weighted average contractual life of 7.6 years (31 December 2017: 8.3 years).

**Trameta acquisition**

During 2016, the Company acquired Trameta doo which owned land and access rights over the export pipeline. Consideration for the transaction was 75 million ordinary shares which vest in four tranches on the one-year anniversary of various conditions being met. An option over a further 7.5 million ordinary shares at an exercise price of 2 pence is valid for three years from November 2016 when the second condition was met.

The 75 million consideration shares, not including the option, were valued using the Black-Scholes model under the assumption that 100% of the shares will vest as management expects all four of the vesting criteria to be successfully achieved. The conditions have been met for the first three tranches, being completion of the SPA, the certification of the pipeline and the transmission of the first million cubic metres of gas along the export pipeline. As at the balance sheet date 27,500,000 remain outstanding valued at £385,000.

The value of the options was measured by the use of a binomial pricing model. The inputs into the binomial model in respect of the Trameta consideration shares were as follows:

| | |
|---|---|
| Share price at grant date | 1.425p |
| Exercise price | Nil |
| Volatility | 101% - 130% |
| Expected life | 1 -3 years |
| Risk free rate | 1.75% |
| Expected dividend yield | 0% |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous comparable periods. The expected life is the expiry period of the options from the date of issue.

The value of the shares and options was £1.1 million which was recognised as an addition to exploration and evaluation costs, see Note 10.

## 24 Notes supporting the statement of cash flows

| Group | 2018 | 2017 |
|---|---|---|
| | £ '000s | £ '000s |
| Cash at bank and available on demand | 375 | 721 |
| Cash held on deposit against bank guarantee | 180 | 355 |
| | **555** | **1,076** |

| Company | 2018 | 2017 |
|---|---|---|
| | £ '000s | £ '000s |
| Cash at bank and available on demand | 112 | 699 |
| Cash held on deposit against bank guarantee | 180 | 355 |
| | **292** | **1,054** |

Included within cash and equivalents is £180,000 which is held as €200,000 on deposit as a security against a bank guarantee against a gas sales agreement. The Gas Sales Agreement originally lasted a minimum term of 12 months which expired in November 2018 and was extended to May 2019.

Significant non-cash transactions are as follows:

| | 2018 | 2017 |
|---|---|---|
| | £ '000s | £ '000s |
| Conversion of loan notes | - | 6,367 |
| Accretion charge on convertible loan notes | 8 | 241 |

## 25 Financial risk management

**Group and Company**

The Group's financial liabilities comprise CLNs and trade payables. All liabilities are measured at amortised cost. These are detailed in Notes 14, 15 and 16.

The Group has various financial assets, being trade receivables and cash, which arise directly from its operations. All are classified at amortised cost. These are detailed in Notes 12, 13 and 24.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (including interest risk and currency risk). The risk management policies employed by the Group to manage these risks are discussed below:

**a. Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group makes allowances for impairment of receivables where there is an ECL identified. Trade receivables have been received post year end. Refer to Note 21 for details of the intercompany loan ECL assessment.

The credit risk on cash is considered to be limited because the counterparties are financial institutions with high and good credit ratings assigned by international credit rating agencies in the UK.

The carrying amount of financial assets, trade receivables and cash held with financial institutions recorded in the financial statements represents the exposure to credit risk for the Group.

At Company level, there is the risk of impairment of inter-company receivables if the full amount is not deemed as recoverable from the relevant subsidiary company. These amounts are written down when their deemed recoverable amount is deemed less than the current carrying value. An IFRS 9 assessment has been carried out as per Note 1.

**b. Market risk**

**(i) Currency risk**

Currency risk refers to the risk that fluctuations in foreign currencies cause losses to the Company.

The Group's operations are predominantly in Slovenia. Foreign exchange risk arises from translating the euro earnings, assets and liabilities of the Ascent Resources doo and Ascent Slovenia Limited into sterling. The Group manages exposures that arise from receipt of monies in a non-functional currency by matching receipts and payments in the same currency.

The Company often raises funds for future development through the issue of new shares in sterling. These funds are predominantly to pay for the Company's exploration costs abroad in euros. As such any sterling balances held are at risk of currency fluctuations and may prove to be insufficient to meet the Company's planned euro requirements if there is devaluation.

***Foreign currency sensitivity analysis***

The Group is mainly exposed to the currency of the European Union (the euro).

The Group operates internationally and is exposed to currency risk on sales, purchases, borrowings and cash and cash equivalents that are denominated in a currency other than sterling. The currencies giving rise to this are the euro.

Foreign exchange risk arises from transactions and recognised assets and liabilities.

The Group does not use foreign exchange contracts to hedge its currency risk.

***Sensitivity analysis***

The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the stated currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis comprises cash and cash equivalents held at the balance sheet date. A positive number below indicates an increase in profit and other equity where sterling weakens 10% against the relevant currency.

| | **Euro currency change** | |
|---|---|---|
| | **Year ended** | Year ended |
| **Group** | **31 December 2018** | 31 December 2017 |
| **Profit or loss** | | |
| 10% strengthening of sterling | **33** | 44 |
| 10% weakening of sterling | **(55)** | (53) |
| | | |
| **Equity** | | |
| 10% strengthening of sterling | **(3,897)** | (2,489) |
| 10% weakening of sterling | **4,764** | 3,040 |
| | | |
| **Company** | | |
| **Profit or loss** | | |
| 10% strengthening of sterling | **(123)** | (146) |
| 10% weakening of sterling | **151** | 178 |
| | | |
| **Equity** | | |
| 10% strengthening of sterling | **(4,542)** | (2,948) |
| 10% weakening of sterling | **5,551** | 3,604 |

(ii) **Interest rate risk**

Interest rate risk refers to the risk that fluctuations in interest rates cause losses to the Company. The Group and Company have no exposure to interest rate risk except on cash and cash equivalent which carry variable interest rates. The Group carries low units of cash and cash equivalents and the Group and Companies monitor the variable interest risk accordingly.

At 31 December 2018, the Group and Company has GBP loans valued at £44,000 rates of 0% per annum. At 31 December 2017, the Group and Company has GBP loans valued at £36,000 rates of 0% per annum.

**(iii) Liquidity risk**

Liquidity risk refers to the risk that the Company has insufficient cash resources to meet working capital requirements.

The Group and Company manages its liquidity requirements by using both short- and long-term cash flow projections and raises funds through debt or equity placings as required. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements.

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced, and sensitivities run for different scenarios (see Note 1). For further details on the Group's liquidity position, please refer to the Going Concern paragraph in Note 1 of these accounts.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** |
| Less than six months - loans and borrowings | - | - | - | - |
| Less than six months - trade and other payables | 282 | 576 | 53 | 174 |
| Between six months and a year | 44 | - | 44 | - |
| Over one year | - | 36 | - | 36 |

**c. Capital management**

The Group manages its shares and CLN's as capital.

**d. There are no externally imposed capital requirements.**

**e. Fair value of financial instruments**

Set in the foregoing is a comparison of carrying amounts and fair values of the Group's and the Company's financial instruments:

| **Capital management - Group** | **Carrying amount** | **Fair Value** | Carrying amount | Fair Value |
|---|---|---|---|---|
| | **Year ended 31 December 2018** | **Year ended 31 December 2018** | Year ended 31 December 2017 | Year ended 31 December 2017 |
| **Financial assets** | | | | |
| Cash and equivalents - unrestricted | **375** | **375** | 721 | 721 |
| Cash and equivalents - restricted | **180** | **180** | 355 | 355 |
| Trade receivables | **198** | **198** | 655 | 655 |
| Prepaid abandonment fund (refundable) | **240** | **240** | 279 | 279 |
| | | | | |
| **Financial liabilities** | | | | |
| Trade and other payables | **282** | **282** | 576 | 576 |
| Convertible loans at fixed rate | **44** | **44** | 36 | 36 |

| **Capital management - Company** | **Carrying amount** | **Fair Value** | Carrying amount | Fair Value |
|---|---|---|---|---|
| | **Year ended 31 December 2018** | **Year ended 31 December 2018** | Year ended 31 December 2017 | Year ended 31 December 2017 |
| **Financial assets** | | | | |
| Cash and equivalents - unrestricted | **112** | **112** | 700 | 700 |
| Cash and equivalents - restricted | **180** | **180** | 355 | 355 |
| Trade receivables | **-** | **-** | - | - |
| | | | | |
| **Financial liabilities** | | | | |
| Trade and other payables | **53** | **53** | 174 | 174 |
| Convertible loans at fixed rate | **44** | **44** | 36 | 36 |

***Convertible loan at fixed rate***

Fair value of convertible loans has been determined based on tier 3 measurement techniques. The fair value is estimated at the present value of future cash flows, discounted at estimated market rates. Fair value is not significantly different from carrying value.

***Trade and other receivables/payables & inter-company receivables***

All trade and other receivables and payables have a remaining life of less than one year. The ageing profile of the Group and Company receivable and payables are shown in Notes 12, 13, 14, 16 and 17.

***Cash and cash equivalents***

Cash and cash equivalents are all readily available and therefore carrying value represents a close approximation to fair value.

## 26 Commitments & contingencies

Now that the Group is generating revenue from the Slovenian asset it has received legal claims relating to past activities. Based on legal advice received we consider these to be spurious and without merit. The Board will vigorously reject such opportunistic approaches.