Third Energy UK Gas Limited

Annual Report and
Financial Statements

for the year ended 31 December 2018

Company Registration No.01421481

Third Energy UK Gas Limited

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for the year ended 31 December 2018

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Third Energy UK Gas Limited

Company information

for the year ended 31 December 2018

Directors	R Hoare (appointed 9th July 2019) SJ Zablocki (appointed 9th December 2019) AS Linn (appointed 22nd January 2018; resigned 9th December 2019)) R Valand (resigned 9th July 2019) JAG Dewar (resigned 22nd January 2018)
Secretary	P Savage (appointed 22nd January 2018) Pinsent Masons Secretarial Limited (resigned 9th July 2019)
Registered office	Knapton Generating Station East Knapton Malton North Yorkshire YO17 8JF
Registered number	01421481
Independent auditor	Mazars LLP 5th Floor 3 Wellington Place Leeds LS1 4AP

The directors submit their report and the financial statements of Third Energy UK Gas Limited for the year ended 31 December 2018.

Principal activities

The principal activity of the Company continues to be that of the appraisal and development of gas assets in the United Kingdom. The gas produced is sold to Third Energy Trading Limited, a fellow subsidiary of Third Energy Onshore Limited.

Review of the business

The Company has taken advantage of the small companies exemption not to prepare a strategic report.

The results for the year are shown on page 8 and are summarised as follows:

	2018	2017
	£'000	£'000
Turnover	275	191
Loss for the financial year	(11,568)	(3,582)

These results are in line with the directors' expectations.

The directors do not recommend the payment of a dividend.

Future developments

The directors consider that, notwithstanding the Company's proven ability to pass all 13 tests set out in the Infrastructure Act 2015, the political situation in the UK is too uncertain to plan to develop the unconventional resources that lie under its existing licences in the near future. The directors plans regarding the business are to develop the fields that lie within the Company's licences whilst protecting the existing assets to deliver the maximum benefit in the future.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue its operations for the foreseeable future and for a period of at least twelve months from the date of approval of the financial stataements and will be able to realise its assets and discharge its liabilities and commitments in the normal course of operations.

At 31 December 2018, the Company had net current liabilities of £69,395,000 (2017: £63,965,000) but included within this is an amount owed to Third Energy Holdings Limited of £60,813,000 (2017: £59,181,000) and an amount owed to Third Energy Onshore Limited of £8,781,000 (2017: £3,374,000). Amounts owed to group companies are repayable on demand. As at the balance sheet date, the Company relied on this funding, that was ultimately derived from Third Energy Holdings Limited, in order to meet its daily working capital requirements.

As explained in note 18, on 9th July 2019, the Company's immediate parent company, Third Energy Onshore Limited, was sold to York Energy (UK) Holdings Limited and, as part of that transaction, the loan the Company owed to Third Energy Holdings Limited, was assigned to Third Energy Onshore Limited. As part of this transaction, all indebtedness owed to Third Energy Holdings Limited by Third Energy Onshore Limited and its subsidiaries Third Energy UK Gas Limited and Third Energy Trading Limited ("the Group") was forgiven and the cash at bank of Third Energy Onshore Limited was increased to £12million. As a consequence, the Group's forecasts indicate that there is sufficient funding to enable the Company to make the necessary investments to enable it to return to profitability and to meet its liabilities as they fall due.

Directors

The directors who have held office since 1st January 2018 are set out below:

R Hoare	(appointed 9th July 2019)
SJ Zablocki	(appointed 9th December 2019)
AS Linn	(appointed 22nd January 2018; resigned 9th December 2019)
R Valand	(resigned 9th July 2019
JAG Dewar	(resigned 22nd January 2018)

Brexit

The Directors continue to assess the potential implications if the United Kingdom were to leave the European Union with or without an agreed deal. The Directors appreciate the high level of uncertainty associated with Brexit but believe there are no significant direct implications expected for the business.

Political contributions

The Company made no political donations and did not incur any political expenditure during the year.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, as far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 485 of the Companies Act 2006, Mazars LLP were appointed as auditor for the year ended 31 December 2018. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Mazars LLP will therefore continue in office.

On behalf of the Board

Russell Hoare
Director

16th December 2019

Knapton Generating Station
East Knapton
Malton
North Yorkshire
YO17 8JF

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements.

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Third Energy UK Gas Limited

Opinion

We have audited the financial statements of Third Energy UK Gas Limited, ("the Company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of the loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's ethical standard, and we have fulfilled our other ethical responsibiliites 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.

The impact of uncertainties due to Britain exiting the European Union on our audit

The directors' view on the impact of Brexit is disclosed in the Directors' Report.

The terms on which the United Kingdom may withdraw from the European Union are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

Conclusions relating to going concern

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

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

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 apprent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Directors' responsibilities

As explained more fully in the directors' responsibility statement set out on page 4, 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 they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 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 audit report.

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

Ross Preston (Senior Statutory Auditor)

for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
5th Floor
3 Wellington Place
Leeds
LS1 4AP

Date: 18 December 2019

Third Energy UK Gas Limited

Statement of Comprehensive Income
for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Turnover	*3*	275	191
Cost of sales		(1,663)	(1,642)
Gross loss		(1,388)	(1,451)
Administrative expenses		(9,775)	(1,930)
Operating loss	*4*	(11,163)	(3,381)
Interest payable and similar expenses	*6*	(405)	(201)
Loss before taxation		(11,568)	(3,582)
Tax on loss	*7*	-	-
Loss for the financial year	*14*	(11,568)	(3,582)
Total comprehensive loss for the year		(11,568)	(3,582)

The result for the year arises from the Company's continuing operations.

The Company has no items of other comprehensive income or expense in the periods being reported upon.

The notes on pages 11 to 21 form part of these financial statements.

Third Energy UK Gas Limited

Statement of Financial Position

31 December 2018 Company Registration No. 01421481

	Notes	2018	2017
		£'000	£'000
Fixed Assets			
Intangible assets	*8*	24,294	30,005
Tangible assets	*9*	1,821	19,160
		26,115	49,165
Current Assets			
Debtors	*10*	561	953
Cash at bank and in hand		24	143
		585	1,096
Creditors: Amounts falling due within one year	*11*	(69,980)	(65,061)
Net Current Liabilities		(69,395)	(63,965)
Total Assets less Current Liabilities		(43,280)	(14,800)
Provisions for liabilities	*12*	(5,342)	(22,254)
Net Liabilities		(48,622)	(37,054)
Capital and reserves			
Called up share capital	*13*	11,600	11,600
Capital contribution		5,790	5,790
Profit and loss account - deficit	*14*	(66,012)	(54,444)
Deficit on shareholders' funds		(48,622)	(37,054)

The notes on pages 11 to 21 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 16th December 2019 and are signed on its behalf by:

Russell Hoare
Director

Third Energy UK Gas Limited

Statement of Changes in Equity

for the year ended 31 December 2018

	Called-up share capital £'000	Capital contribution £'000	Profit and loss account £'000	Total £'000
At 1 January 2017	11,600	5,790	(50,862)	(33,472)
Loss for the financial year	-	-	(3,582)	(3,582)
At 31 December 2017	11,600	5,790	(54,444)	(37,054)
Loss for the financial year	-	-	(11,568)	(11,568)
At 31 December 2018	11,600	5,790	(66,012)	(48,622)

The notes on pages 11 to 21 form part of these financial statements.

1 General information

Third Energy UK Gas Limited is a private company incorporated, domiciled and registered in England and Wales. The registered number is 01421481 and the registered address is Knapton Generating Station, East Knapton, Malton, North Yorkshire YO17 8JF.

2 Accounting policies

The financial statements are based on the following accounting policies of the Company.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ("FRS 102") and the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The largest Group into which the Company could be consolidated is Third Energy Holdings Limited but that company is not including its subsidiaries in its financial statements for the year ended 31 December 2018. As a consequence, consolidated financial statements for the immediate parent undertaking, Third Energy Onshore Limited, have been prepared.

The Company's immediate parent undertaking, Third Energy Onshore Limited includes the Company in its consolidated financial statements. In these financial statements, the company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

Measurement convention

The financial statements are prepared on the historical cost basis.

Significant judgements and estimates

The directors are required to make significant judgements and estimates in the preparation of the financial statements. The items in the financial statements where these judgements and estimates have been made include:

The directors' judgement is that the onshore development of its conventional gas licences in the North East of England is likely to generate sufficient income to cover current and future costs of development and, therefore, it is appropriate to carry forward the costs incurred to date.

The directors have taken external advice with respect to the cost of decommissioning its assets and have exercised their judgement in selecting a value from the range of values presented. The directors judgement is that, given current plans regarding the planning and timing of the decommissioning work the value adopted is the appropriate amount.

The directors' judgement is also that the onshore development will generate sufficient cash to enable the balances owed to fellow group companies to be repaid.

2 **Accounting policies (continued)**

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue its operations for the foreseeable future and for a period of at least twelve months from the date of approval of the financial statements and will be able to realise its assets and discharge its liabilities and commitments in the normal course of operations.

At 31 December 2018, the Company had net current liabilities of £69,395,000 (2017: £63,965,000) but included within this is an amount owed to Third Energy Holdings Limited, the ultimate parent company, of £60,813,000 (2017: £59,181,000) and an amount owed to Third Energy Onshore Limited of £8,781,000 (2017: £3,374,000). Amounts owed to group companies are repayable on demand. As at the balance sheet date, the Company relied on this funding, that was ultimately derived from Third Energy Holdings Limited, in order to meet its daily working capital requirements.

As explained in note 18, on 9th July 2019, the Company's immediate parent company, Third Energy Onshore Limited, was sold to York Energy (UK) Holdings Limited and, as part of that transaction, the loan the Company owed to Third Energy Holdings Limited, was assigned to Third Energy Onshore Limited. As part of this transaction, all indebtedness owed to Third Energy Holdings Limited by Third Energy Onshore Limited and its subsidiaries Third Energy UK Gas Limited and Third Energy Trading Limited ("the Group") was forgiven and the cash at bank of Third Energy Onshore Limited was increased to £12million. As a consequence, the Group's forecasts indicate that there is sufficient funding to enable the Company to make the necessary investments to enable it to return to profitability and to meet its liabilities as they fall due.

Basic financial instruments

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents comprise cash balances and call deposits. The Company has no bank overdrafts.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met are not provided for. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

2 **Accounting policies (continued)**

Taxation (continued)

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Exploration and evaluation assets

Exploration and evaluation costs are accounted for under IFRS 6 as recommended under FRS 102 (see "Basis of preparation" on page 11).

Pre-exploration costs incurred prior to having secured the legal rights to explore an area and general seismic data and other costs not specifically directed to an identified exploration licence are expensed directly to the profit and loss account as they are incurred.

Costs of exploration and development are initially capitalised as exploration and evaluation assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling, activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral asset and testing are capitalised as intangible exploration and evaluation assets.

Intangible exploration and evaluation assets are not amortised prior to the conclusion of appraisal activities but are carried forward until the existence of commercial reserves has been determined. If commercial reserves are determined to exist, the carrying value of the relevant exploration and evaluation asset is then reclassified as a development and production asset. If commercial reserves are determined not to exist, the capitalised costs that had previously been carried in intangible assets are charged to the profit and loss account as exploration expense, as soon as that determination has been made. The status of such prospects is reviewed regularly by the directors.

Development and production assets

Development and production assets are accumulated on a field by field basis and represent the cost of developing the commercial reserves and bringing them to production, together with the exploration and evaluation assets incurred in finding commercial reserves as described above.

Development and production assets also includes the cost of items purchased to be used on gas assets but held in stock to be used in future. A provision of 50% is made against the cost of these items to ensure that the carrying value of these items does not exceed the value in use.

The cost of producing assets is depreciated using the unit of production method. The unit of production method is a means of computing the portion to be charged for the current period out of the total costs yet to be charged to the profit and loss account. That portion is represented by the ratio of production in the year and the estimated commercial reserves relating to that asset, taking into account future development expenditure necessary to bring those reserves to production.

2 Accounting policies (continued)

Commercial reserves

Commercial reserves are defined as proved gas reserves supported by either actual production or a conclusive formation test which the directors intend to develop and produce.

Where unit of production calculations are required to be made in arriving at amounts stated within these financial statements, only commercial developed resources are used and not proved developed and undeveloped reserves. The directors consider such method to reflect a more appropriate approach to the unit of production calculations. In this context, developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Impairment of development and production assets

An impairment test is performed whenever facts and circumstances suggest that the carrying value of a development or production asset, or group of assets, may be greater than the returns expected to be generated from that asset or group of assets.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of the asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Other fixed assets

Plant and machinery and motor vehicles and equipment are stated at historical cost less accumulated depreciation and less any provision for impairment.

The decommissioning asset is stated at an amount equal to the initial provision for decommissioning less accumulated depreciation.

Depreciation is provided so as to write off the costs of the assets to residual values over the assets' useful estimated lives, on the following bases:

Gas development & production	Unit of production method	
Decommissioning asset	Unit of production method	
Plant and Machinery	3 to 15 years	Straight line
Motor vehicles and equipment	3 to 4 years	Straight line

2 Accounting policies (continued)

Provision for decommissioning

A provision for decommissioning costs is recognised in full at the commencement of operations. The amount recognised is the present value of the estimated future expenditure that will be required to decommission the company's assets and bring the land back to the state that existed prior to the assets being built. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to interest expense.

A corresponding tangible fixed asset is created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities.

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Turnover

Turnover represents amounts receivable from the sale of gas to its fellow subsidiary plus amounts receivable from partners in respect of joint developments and is generated entirely within the United Kingdom.

Turnover is recognised at the point and time of delivery, net of trade discounts and VAT.

3 Turnover

	2018	2017
Turnover represents amounts receivable from the following:	£'000	£'000
Sales of gas to fellow subsidiary	267	128
Recharges to development partners	8	63
	275	191

4 Operating loss

	2018	2017
	£'000	£'000
Operating loss is stated after charging:		
Depreciation of tangible assets	27	12
Exploration impairment (see note 8 - Intangible fixed assets)	7,859	-
Auditor's remuneration in respect of the company	13	17
Operating leases - land and buildings	300	309

5 Staff costs

	2018	2017
	£'000	£'000
Wages and salaries	439	476
Social security costs	43	47
Pension costs	36	37
	518	560

5 Staff costs (continued)

The directors' remuneration is borne by Third Energy Holdings Limited and Third Energy Onshore Limited. Given the size of the Group and the interconnected nature of each subsidiary company's activities, the directors do not believe it is practical to apportion the remuneration between their services to this company and their services as directors of the parent company and fellow subsidiary companies. The directors believe that the expense of the directors' remuneration related to this Company would be trivial.

The average monthly number of employees during the year was as follows:

	2018	2017
	No	No
Management and administration	1	2
Technical and operations	13	13
	14	15

6 Interest payable and similar charges

	2018	2017
	£'000	£'000
Unwinding of discount on decommissioning provision	401	195
Other interest payable	4	6
	405	201

7 Taxation

	2018	2017
Analysis of charge in the year	£'000	£'000
Current tax - UK corporation tax on profits for the year	-	-
Deferred tax - origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	-	-
Factors affecting tax charge in the year		
Loss before taxation	(11,568)	(3,582)
Loss before taxation multiplied by the combined rate of corporation tax and supplementary charge in the UK of 40% (2017: 40%)	(4,627)	(1,433)
Expenses not deductible for tax purposes	1,255	-
Financing costs not deductible for SCT	1	1
Unrecognised deferred tax on losses	3,371	1,432
Total tax charge	-	-

The Budget on 16 March 2016 announced that the Supplementary Charge to Corporation Tax on ring fence profits will be reduced from 20% to 10% with effect from 1 January 2016. The effective rate of tax applicable for UK ring fence oil and gas activities in 31 December 2018 was, therefore, 40% (2017: 40%).

The ring fence rate of corporation tax applicable to upstream oil and gas profits remains at 30%.

The Company has a potential deferred tax asset at 31 December 2018 of £43.1m (2017: £34.7m) consisting of accumulated tax losses of £115.4m, accelerated capital allowances of £11.0m and other timing differences of £3.9m (2017: accumulated tax losses of £98.4m, accelerated capital allowances of £13.7m and other timing differences of £3.5m). This asset has not been recognised under FRS 102 as it is not certain that the Company will have sufficient taxable profits for the losses to be utilised in the foreseeable future.

7 Taxation (continued)

Reductions in the UK corporation tax rate were from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate was substantively enacted on 6 September 2016 to further reduce the tax rate to 17% (to be effective from 1 April 2020). This will reduce the company's future current tax charge accordingly.

8 Intangible fixed assets

	Exploration and evaluation	Total
Cost	£'000	£'000
At 1 January 2018	42,942	42,942
Additions	2,148	2,148
At 31 December 2018	45,090	45,090
Amortisation and impairment		
At 1 January 2018	12,937	12,937
Impairment	7,859	7,859
At 31 December 2018	20,796	20,796
Net book value		
At 31 December 2018	24,294	24,294
At 31 December 2017	30,005	30,005

The directors have decided to concentrate future activities on developing the Company's conventional gas assets. As a result, the investment in purely unconventional activities of £7,859,000 has been impaired.

9 Tangible fixed assets

	Gas development and production £'000	Decommissioning asset £'000	Plant and machinery £'000	Motor vehicles and equipment £'000	Total £'000
Cost					
At 1 January 2018	9,958	20,764	1,228	112	32,062
Additions	28	-	-	18	46
Disposals	(90)	-	-	-	(90)
Reassessment of decommissioning asset	-	(17,313)	-	-	(17,313)
Eliminate cost of exhausted assets	(2,693)	-	-	-	(2,693)
At 31 December 2018	7,203	3,451	1,228	130	12,012
Depreciation					
At 1 January 2018	9,604	2,010	1,191	97	12,902
Charge for the year	14	-	5	8	27
Removed on disposal	(45)	-	-	-	(45)
Eliminate depreciation on exhausted assets	(2,693)	-	-	-	(2,693)
At 31 December 2018	6,880	2,010	1,196	105	10,191
Net book value					
At 31 December 2018	323	1,441	32	25	1,821
At 31 December 2017	354	18,754	37	15	19,160

10 Debtors

	2018 £'000	2017 £ 000
Trade debtors	-	4
Amounts owed by group companies	180	310
Prepayments and accrued income	220	331
Other debtors	161	308
	561	953

The amounts owed by group companies are repayable on demand and no interest is charged on outstanding balances.

11 **Creditors:** amounts falling due within one year	2018	2017
	£'000	£'000
Trade creditors	40	1,280
Amounts owed to group undertakings	69,829	62,555
Taxation and social security costs	11	13
Other creditors	5	4
Accruals and deferred income	95	1,209
	69,980	65,061

Amounts owed to group undertakings include £60,813,000 which is owed to Third Energy Holdings Limited at 31 December 2018 (2017: £59,181,000). As explained in the directors' assessment of going concern on page 2, on 9th July 2019 this amount was assigned to Third Energy Onshore Limited. This amount is repayable on demand but the directors of Third Energy Onshore Limited have confirmed that it is not their intention to seek repayment of this amount within the twelve months following the signing of these accounts. There is no interest charged on this amount.

Amounts owed to group undertakings also include £9,015,000 which is owed to other fellow subsidiary companies (2017: £3,374,000). These amounts are repayable on demand but the directors of those companies have confirmed that it is not their intention to seek repayment of these amounts within the twelve months following the signing of these accounts. There is no interest charged on these amounts.

12 **Provisions for liabilities**	2018	2017
	£'000	£'000
Decommissioning costs		
At 1 January	22,254	3,531
Reassessment of decommissioning provision	(17,313)	18,528
Unwinding of discount to profit and loss account	401	195
At 31 December	5,342	22,254

Provision has been made for the discounted cost of restoring the plant and pipelines on the Company's wellsites and at the main generating station to a condition acceptable to the relevant authorities, which is not anticipated to happen until 20 years after the year end. The Company commissioned Dundas Consultants to calculate the current cost of decommissioning the wellsites, in the unlikely event that decommissioning was required immediately, and they reported in October 2019. These calculations have been adopted in these financial statements. Actual decommissioning costs will ultimately depend on the future cost of decommissioning which in turn will be affected by market conditions and regulations at the time. Furthermore, the timing of decommissioning will depend on the date the fields cease to produce at commercial rates which is influenced by factors such as future gas prices, which are inherently uncertain.

13 **Called up share capital**	2018	2017
Ordinary shares of £1 each	No	No
Authorised	11,600	11,600
	£'000	£'000
Allotted, issued and fully paid	11,600	11,600

14 Reserves

Capital contribution

This reserve represents the cumulative value of assets and liabilities transferred to the Company.

Profit & loss account

This reserve represents cumulative profits and losses less dividends paid.

15 Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases relating to land and buildings are as follows:

	2018	2017
	£'000	£'000
Within one year	163	165
Within two to five years	-	72
After five years	-	45
	163	282

During the year £300,000 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £309,000).

16 Guarantees and other financial commitments

As at 31 December 2018, the Company was obligor to a loan facility advanced to Third Energy Holdings Limited by Northwharf Investments Limited totalling £18,800,000 (see note 18 below).

The Company is a member of a VAT group and the net potential liability under the group registration as of 31 December 2018 was £nil (2017: £nil).

17 Related party transactions

The Company has taken advantage of the exemption under FRS 102.33.1A not to disclose transactions between itself and other wholly owned Group companies.

18 Post balance sheet events

On 9th July 2019, Third Energy Holdings Limited sold Third Energy Onshore Limited and its subsidiaries, Third Energy Trading Limited and Third Energy UK Gas Limited ("the Group"), to York Energy (UK) Holdings Limited. Immediately prior to this transaction, the amounts that were owed by Third Energy Holdings Limited to Third Energy Trading Limited and the amounts that were owed by Third Energy UK Gas Limited to Third Energy Holdings Limited were assigned to Third Energy Onshore Limited.

Furthermore, immediately prior to completion of the transaction the balance at bank of Third Energy Onshore Limited was increased to £12m to provide the Group with sufficient cash to enable it to meet its known liabilities and provide it with working capital and the loan balance owed to Third Energy Holdings Limited, which at that date had increased to £80,829,000, was forgiven.

As a result of this transaction the Company was released from all obligations as obligor to a loan facility taken out by Third Energy Holdings Limited with Northwharf Investments Limited.

19 **Ultimate parent company**

The immediate parent company is Third Energy Onshore Limited. The smallest and largest group into which the Company is consolidated is Third Energy Onshore Limited.

In the opinion of the directors, the ultimate parent company of Third Energy Onshore Limited is Barclays PLC as at 31 December 2018. There is no ultimate controlling party.

As at the date of signing these financial statements, the immediate parent is York Energy (UK) Holdings Limited and the ultimate controlling party is Mr T Reed.