Third Energy UK Gas Limited

(formerly Viking UK Gas Limited)
Financial Statements

for the year ended 31 December 2013

Company Registration No.01421481

Third Energy UK Gas Limited
(formerly Viking UK Gas Limited)
Contents of the Financial Statements
for the year ended 31 December 2013

Third Energy UK Gas Limited
(formerly Viking UK Gas Limited)
Company information
for the year ended 31 December 2013

Directors	R Valand JAG Dewar DJ Robottom
Secretary	MD Secretaries Limited
Registered office	Knapton Generating Station East Knapton Malton North Yorkshire YO17 8JF
Registered number	01421481
Independent auditor	KPMG LLP 8 Salisbury Square London EC4Y 8BB

The directors submit their report and the financial statements of Third Energy UK Gas Limited for the year ended 31 December 2013.

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 Holdings Limited.

Change of name
On 29th November 2013 the Company changed its name from Viking UK Gas Limited to Third Energy UK Gas Limited.

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

The directors do not recommend the payment of a dividend.

Going concern
The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future.

The directors have reviewed the Group's forecasts for the period to March 2016 which incorporate all firm commitments in accordance with the Group's business plans. The directors believe that, with the continued support of its parent company, Third Energy Holdings Limited, the Group can continue as a going concern, and has the necessary funding available to ensure that it continues to trade on the going concern basis, for the reasonably foreseeable future.

Directors
The directors who have held office since 1st January 2013 are set out below:

Mr R Valand
Mr JAG Dewar
Mr DJ Robottom

Statement as to disclosure of information to the auditor
The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. The directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board

David Robottom
Director

30th September 2014

Knapton Generating Station
East Knapton
Malton
North Yorkshire
YO17 8JF

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

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

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

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

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

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

KPMG

Independent auditor's report to the members of Third Energy UK Gas Limited (formerly Viking UK Gas Limited)

We have audited the financial statements of Third Energy UK Gas Limited (the Company) for the year ended 31 December 2013 set out on pages 5 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor
As more fully explained in the Director's Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on the financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 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.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where 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 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.
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Adrian Wilcox
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
30 September 2014

Third Energy UK Gas Limited
(formerly Viking UK Gas Limited)
Profit and loss account
for the year ended 31 December 2013 Company Registration No. 01421481

	Notes	2013	2012
		£	£
Turnover	*1*	506,075	826,624
Cost of sales		(9,071,963)	(4,922,548)
Gross Loss		(8,565,888)	(4,095,924)
Administration expenses		(2,658,911)	(2,043,603)
Operating loss	*2 & 3*	(11,224,799)	(6,139,527)
Profit on sale of fixed assets		-	665
Interest receivable and similar income	*4*	1,621	1,326
Interest payable and similar charges	*5*	(20,370)	(218,249)
Loss on ordinary activities before taxation		(11,243,548)	(6,355,785)
Tax on loss on ordinary activities	*6*	-	-
Loss for the financial year	*14*	(11,243,548)	(6,355,785)

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

The notes on pages 7 to 13 form part of these financial statements.

Third Energy UK Gas Limited
(formerly Viking UK Gas Limited)
Balance Sheet

31 December 2013 Company Registration No. 01421481

	Notes	2013	2012
		£	£
Fixed Assets			
Intangible assets	*7*	16,298,101	4,143,919
Tangible assets	*8*	894,290	537,348
		17,192,391	4,681,267
Current Assets			
Debtors	*9*	3,152,189	1,222,253
Cash at bank and in hand		304,706	398,683
		3,456,895	1,620,936
Creditors: Amounts falling due within one year	*10*	(7,614,348)	(14,092,966)
Net Current Liabilities		(4,157,453)	(12,472,030)
Total Assets less Current Liabilities		13,034,938	(7,790,763)
Creditors: Amounts falling due after one year	*11*	(31,825,039)	-
Provisions for liabilities	*12*	(3,007,450)	(2,763,240)
Net Liabilities		(21,797,551)	(10,554,003)
Capital and reserves			
Called up share capital	*13*	11,600,000	11,600,000
Capital contribution		5,789,842	5,789,842
Profit and loss account - (deficit)	*14*	(39,187,393)	(27,943,845)
Deficit on shareholders' funds	*15*	(21,797,551)	(10,554,003)

The notes on pages 7 to 13 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 30th September 2014 and are signed on its behalf by:

David Robottom
Director

Basis of preparation
The financial statements have been prepared under the historical cost convention in accordance with applicable UK accounting standards including the Statement of Recommended Practice "Accounting for oil and gas exploration, development, production and decommissioning activity" (SORP), published by the Oil Industry Accounting Committee, except where explicitly disclosed otherwise.

The Company has taken advantage of the exemptions under Financial Reporting Standards 1 - Cash Flow Statements not to prepare a Cash Flow Statement as the Company is included within the consolidated financial statements of Third Energy Holdings Limited (TEHL).

Going concern
The financial statements have been prepared on the going concern basis notwithstanding net current liabilities of £4,157,453 (2012: £12,472,030) which assumes that the Company will continue in operational existence for the foreseeable future.

The directors have reviewed the Group's forecasts for the period to March 2016 which incorporate all firm commitments in accordance with the Group's business plans. The directors believe that, with the continued support of its parent company, Third Energy Holdings Limited, the Group can continue as a going concern, and has the necessary funding available to ensure that it continues to trade on the going concern basis, for the reasonably foreseeable future.

As with any company placing reliance on another group company for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The financial statements do not include any adjustments that might apply if this assumption were to prove to be incorrect.

Taxation
Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that the assets will be recovered.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currencies
Assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating result.

Exploration and appraisal assets
Exploration and appraisal costs are accounted for on the "successful efforts" basis as set out in the SORP (see "Basis of preparation" on page 7).

Exploration and appraisal cost 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 assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as intangible exploration assets.

Intangible exploration 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 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 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 is made 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.

Commercial reserves
Commercial reserves are defined as proved oil and gas reserves as set out in the SORP (see "Basis of preparation" on page 7).

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 as recommended by the SORP. 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 a change in expectations indicates 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 carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be generated from the commercial reserves associated with that asset. The recoverable amount is assumed to be the higher of estimated net realisable value or value in use. Value in use is calculated for each fixed asset and represents the present value of future net revenues to be derived from estimated reserves. If the net cash flows of a number of assets are interdependent, then the net cash flows of all interdependent assets are included in the impairment calculation.

Any impairment identified is charged to the profit and loss account as additional depreciation. If the conditions leading to the impairment change and the impairment test suggests that impairment previously charged should be reversed then a credit is taken to the profit and loss account, net of any depreciation that would have been charged since the impairment charge was made.

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 -

Motor vehicles and equipment	3-4 years	Straight line
Plant and Machinery	3 to 15 years	Straight line
Decommissioning asset	3 to 10 years	Straight line

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.

Leasing and hire purchase commitments

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

Turnover

Turnover represents amounts receivable from the sale of gas to its fellow subsidiary. Turnover is recognised at the point and time of delivery, net of trade discounts and VAT.

1 Turnover

Turnover is wholly attributable to the principal activity of the Company and is generated within the United Kingdom.

2 Operating loss

	2013	2012
	£	£
Operating loss is stated after charging:		
Depreciation of tangible assets	117,967	371,473
Impairment of tangible assets	231,625	-
Exploration expense	7,963,771	3,780,692
Auditor's remuneration	14,000	13,218
Operating leases - land and buildings	278,111	253,066

3 Staff costs

	2013	2012
	£	£
Wages and salaries	630,027	523,875
Social security costs	69,324	57,080
Pension costs	31,003	32,914
	730,354	613,869

The directors' remuneration is paid by Third Energy Holdings Limited. 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 average monthly number of employees during the year was as follows:	2013	2012
	No	No
Management and administration	4	4
Technical and operations	14	11
	18	15

4 Interest receivable

	2013	2012
	£	£
Bank interest receivable	1,621	1,326

5 Interest payable and similar charges

	2013	2012
	£	£
Unwinding of discount on decommissioning provision	12,585	213,425
Interest on finance lease agreements	7,785	4,824
	20,370	218,249

6 Taxation

	2013	2012
	£	£
Analysis of charge in the period		
Current tax - UK corporation tax on profits for the period	-	-
Deferred tax - origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	-	-
Factors affecting tax charge in the period		
Loss on ordinary activities before taxation	(11,243,548)	(6,355,785)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 62% (2012: 62%)	(6,971,000)	(3,940,587)
Expenses not deductible for tax purposes	11,323	-
Capital allowances in excess of depreciation	5,150,856	(3,019,536)
Other timing differences	-	106,713
Interest not deductible for SCT	2,491	1,544
Ring fence expenditure supplement	-	(3,045,626)
Losses generated in the period	1,806,330	9,897,492
Current tax charge	-	-

The effective rate of tax in 2013 was 62% (2012: 62%).

The Company has a potential deferred tax asset at 31 December 2013 of £43.0m (2012: £36.0m) consisting of accumulated tax losses and accelerated capital allowances of £86.9m (2012 £54.6m). This asset has not been recognised under FRS19 as it is not certain that the Company will have sufficient taxable profits for the losses to be utilised in the foreseeable future.

The 2013 Budget on 20th March 2013 announced that the UK corporation tax rate will reduce from 23% to 21% from 1st April 2014 and, further, reduce to 20% from 1st April 2015. These changes were substantively enacted on 2nd July 2013.

This will reduce the Company's future current tax charge accordingly and further reduce the deferred tax asset at 31st December 2013 (which has been calculated based on the rate of 20% substantively enacted at the balance sheet date).

7 Intangible fixed assets

	Exploration and development	Total
	£	£
Cost		
At 1 January 2013	7,924,611	7,924,611
Additions	20,117,953	20,117,953
At 31 December 2013	28,042,564	28,042,564
Depreciation		
At 1 January 2013	3,780,692	3,780,692
Impairment	7,963,771	7,963,771
At 31 December 2013	11,744,463	11,744,463
Net book value		
At 31 December 2013	16,298,101	16,298,101
At 31 December 2012	4,143,919	4,143,919

8 Tangible fixed assets

	Gas development and production	Decommissioning asset	Plant and machinery	Motor vehicles and equipment	Total
	£	£	£	£	£
Cost					
At 1 January 2013	9,583,529	2,004,028	1,173,447	57,317	12,818,321
Additions	458,352	231,625	1,630	33,042	724,649
Disposals	(36,230)	-	-	-	(36,230)
At 31 December 2013	10,005,651	2,235,653	1,175,077	90,359	13,506,740
Depreciation					
At 1 January 2013	9,277,420	1,778,053	1,173,447	52,053	12,280,973
Charge for the year	105,130	-	95	12,742	117,967
Removed on disposal	(18,115)	-	-	-	(18,115)
Impairment	-	231,625	-	-	231,625
At 31 December 2013	9,364,435	2,009,678	1,173,542	64,795	12,612,450
Net book value					
At 31 December 2013	641,216	225,975	1,535	25,564	894,290
At 31 December 2012	306,109	225,975	-	5,264	537,348

9 Debtors

	2013	2012
	£	£
Amounts owed by group companies	2,246,231	-
Prepayments and other income	498,445	441,455
Other debtors	407,513	780,798
	3,152,189	1,222,253

10 Creditors: amounts falling due within one year

	2013	2012
	£	£
Trade creditors	1,169,887	849,779
Amounts owed to group undertakings	5,706,052	13,162,127
Taxation and social security costs	14,728	25,306
Other creditors	3,895	17,635
Accruals and deferred income	719,786	38,119
	7,614,348	14,092,966

11 Creditors: amounts falling due after one year

	2013	2012
	£	£
Amounts owed to group undertakings	31,825,039	-

12 Provisions for liabilities

	2013	2012
	£	£
Decommissioning costs		
At 1 January	2,763,240	2,323,840
Addition to provision	231,625	225,975
Unwinding of discount to profit and loss account	12,585	213,425
At 31 December	3,007,450	2,763,240

13 Called up share capital

	2013	2012
Ordinary shares of £1 each	No	No
Authorised	11,600,000	11,600,000
	£	£
Allotted, issued and fully paid	11,600,000	11,600,000

14 Statement of movement on reserves

	Profit and loss account
	£
Deficit at 1st January 2013	(27,943,845)
Loss for the financial year	(11,243,548)
Deficit at 31 December 2013	(39,187,393)

15 Reconciliation of movement in shareholders' funds

	2013	2012
	£	£
Deficit on shareholders' funds as at 31 January 2013	(10,554,003)	(4,198,218)
Loss for the financial year	(11,243,548)	(6,355,785)
Deficit on shareholders' funds as at 31 December 2013	(21,797,551)	(10,554,003)

16 Guarantees and other financial commitments

The company is a member of a VAT group and the net potential liability under the group registration as of 31 December 2013 was £nil (2012: £nil).

17 Related party transactions

The Company has taken advantage of the exemption under Financial Reporting Standard No 8 not to disclose transactions between itself and other wholly owned Group companies.

18 Ultimate parent company

The immediate parent is Third Energy Onshore Limited. The smallest and largest group into which the Company is consolidated is Third Energy Holdings Limited. Copies of the accounts of Third Energy Holdings Limited can be obtained from 7th Floor, Portland House, Bressenden Place, London SW1E 5BH.

In the opinion of the directors, the ultimate parent company of Third Energy Holdings Limited is Barclays PLC. There is no ultimate controlling party.