Third Energy UK Gas Limited

Annual Report and
Financial Statements

for the year ended 31 December 2017

Company Registration No.01421481

Third Energy UK Gas Limited
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for the year ended 31 December 2017

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Third Energy UK Gas Limited

Company information

for the year ended 31 December 2017

Directors	R Valand JAG Dewar (resigned 22nd January 2018) A Linn (appointed 22nd January 2018)
Joint Secretary	Pinsent Masons Secretarial Limited P Savage (appointed 22nd January 2018)
Registered office	Knapton Generating Station East Knapton Malton North Yorkshire YO17 8JF
Registered number	01421481
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL

The directors submit their report and the financial statements of Third Energy UK Gas Limited for the year ended 31 December 2017.

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.

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 7 and are summarised as follows:

	2017	2016
	£'000	£'000
Turnover	191	757
Loss for the financial year	(3,582)	(3,405)

These results are in line with the directors' expectations.

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 its operations for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of operations.

As at the year ended 31 December 2017, the Company formed part of an operating model that included other entities within the Third Energy Holdings Limited Group to which the Company belongs ('the Group') and as such the Directors have reviewed the going concern of the Company as part of a wider review of the Group as a whole.

The Company has net current liabilities of £63,965,000 (2016: £54,652,000) but included within this is an amount owed to group undertakings of £62,555,000 (2016: £55,709,000) of which £59,181,000 which is owed to Third Energy Holdings Limited (2016: £48,165,000). Amounts owed to group undertakings are repayable on demand. The Company meets its day-to-day working capital requirements through this loan facility and is dependent on these loans not being recalled. As at the time of approval of the financial statements this loan had increased to £59,480,000 (total amounts owed to group undertakings of £62,555,000).

The Company has been operating for over 25 years and the wells that were previously drilled are mature and producing low volumes of gas. The Company is in the process of evaluating and developing the conventional and unconventional resources that exist within its licence areas. The revenue earned from the existing wells is, therefore, reducing and, as a result, the Company is reliant on sourcing of finance to fund the further exploration and development expenditure required to develop the conventional and unconventional resources. As noted above, financing was previously provided by Third Energy Holdings Limited which is, in turn, dependent on further financing. Currently financing is provided by Third Energy Holdings Limited to a level sufficient to only support day to day activities of the Company, and this is only expected to continue until the event of a sale of entities controlled by Third Energy Holdings Limited, if that sale is agreed in the short term (see below). Third Energy Holdings Limited is not expected to provide the required funding to support the necessary activities to enable the group to progress to cash generation and continue as a going concern.

In assessing the Company's ability to continue as a going concern, the Directors have prepared base and sensitised cash flow forecasts for a period in excess of 12 months from the date of authorisation of these financial statements. Base case forecasts indicate that the Company will require significant capital expenditure to develop the conventional and unconventional resources of £14m, £5m of which is forecast in the next 12 months. In addition, the Company needs further cash injections even to operate without the additional capital expenditure.

The Group is actively seeking alternative sources of funding which may involve the disposal of the Onshore business, including the company, depending on the outcome and the Group has appointed Lazard as its financial adviser to advise the Group in relation to its management of this process. The Group's finance provider indicated, on a non-reliance basis, that it intends to continue providing support to Third Energy Holdings Limited on a short term basis whilst the lender believes in its sole discretion that there is a reasonable prospect of a commercially acceptable outcome from the current processes in relation to the proposed sale of the Onshore, as well as the Offshore, businesses. There are a number of potential counterparties currently involved in this process so the directors are confident that this process will reach a successful conclusion. At the moment, however, the directors cannot guarantee a successful outcome to this process, the sale of the Company on a going concern basis in a timeframe before the financing support of the Group and Company is withdrawn. Additionally, while the Directors believe that sale of the Company on a going concern basis is a realistic possibility, there can be no certainty as to the intentions of any future owners, on whom the Company would be reliant for funding for ongoing needs and to fund the necessary development expenditure.

These conditions represents a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. These financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Group were unable to continue as a going concern.

Directors

The directors who have held office since 1st January 2017 are set out below:

Mr R Valand	
Mr A Linn	(appointed 22nd January 2018)
Mr JAG Dewar	(resigned 22nd January 2018)
Mr DJ Robottom	(resigned 28th March 2017)

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 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

Rasik Valand
Director

24th October 2018

Knapton Generating Station
East Knapton
Malton
North Yorkshire
YO17 8JF

Third Energy UK Gas Limited

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;

- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

- use 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.

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 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 2017 which comprise the statement of Profit and loss account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 of the financial statements which indicates that the Company is dependent on financial support from its parent company. That support is only expected to continue until a sale of the Company is agreed. If a sale is not agreed within a timeframe that the ultimate parent considers reasonable, then the Company will not have the funding to continue in operation. In the event of a sale, the Company is dependent on funding from any future parent.

These conditions, along with the other matters explained in note 2, constitute a material uncertainty that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information, which comprises the strategic report and the directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THIRD ENERGY UK GAS LIMITED

Directors' responsibilities

As explained more fully in their 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; 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; 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 either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

M Smith

Mark Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom
Date: 24 October 2018

Third Energy UK Gas Limited

Profit and loss account and Other Comprehensive Income
for the year ended 31 December 2017 — Company Registration No. 01421481

	Notes	2017 £'000	2016 £'000
Turnover		191	757
Cost of sales		(1,642)	(1,768)
Gross loss		(1,451)	(1,011)
Administrative expenses		(1,930)	(2,205)
Operating loss	*3 & 4*	(3,381)	(3,216)
Other interest receivable and similar income	*5*	-	1
Interest payable and similar expenses	*6*	(201)	(190)
Loss before taxation		(3,582)	(3,405)
Tax on profit/loss	*7*	-	-
Loss for the financial year	*14*	(3,582)	(3,405)
Total comprehensive loss for the period		(3,582)	(3,405)

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 10 to 19 form part of these financial statements.

Third Energy UK Gas Limited

Balance Sheet

31 December 2017 Company Registration No. 01421481

	Notes	2017 £'000	2016 £'000
Fixed Assets			
Intangible assets	*8*	30,005	24,094
Tangible assets	*9*	19,160	619
		49,165	24,713
Current Assets			
Debtors	*10*	953	1,452
Cash at bank and in hand		143	112
		1,096	1,564
Creditors: Amounts falling due within one year	*11*	(65,061)	(56,216)
Net Current Liabilities		(63,965)	(54,652)
Total Assets less Current Liabilities		(14,800)	(29,939)
Provisions for liabilities	*12*	(22,254)	(3,531)
Net Liabilities		(37,054)	(33,470)
Capital and reserves			
Called up share capital	*13*	11,600	11,600
Capital contribution		5,790	5,790
Profit and loss account - deficit	*14*	(54,444)	(50,862)
Deficit on shareholders' funds	*15*	(37,054)	(33,472)

The notes on pages 10 to 19 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 24th October 2018 and are signed on its behalf by:

Rasik Valand

Director

	Called-up share capital £'000	Capital contribution £'000	Profit and loss account £'000	Total £'000
At 1 January 2016	11,600	5,790	(47,457)	(30,067)
Loss for the financial year	-	-	(3,405)	(3,405)
At 31 December 2016	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)

The notes on pages 10 to 19 form part of these financial statements.

1 General information

Third Energy UK Gas Limited is a private company incorporated, domiciled and registered in England. 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") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. 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 Company's ultimate parent undertaking, Third Energy Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Third Energy Holdings Limited are available to the public and may be obtained from 4th Floor, 87-91 Newman Street, London W1T 3EY. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) 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 judgments and estimates in the preparation of the financial statements. The items in the financial statements where these judgments and estimates have been made include:

The directors' judgement is that the onshore development of both its conventional and unconventional 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' judgment is also that the onshore development will generate sufficient cash to enable the balances owed to fellow group companies to be repaid.

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 will be able to realise its assets and discharge its liabilities and commitments in the normal course of operations.

As at the year ended 31 December 2017, the Company formed part of an operating model that included other entities within the Third Energy Holdings Limited Group to which the Company belongs ('the Group') and as such the Directors have reviewed the going concern of the Company as part of a wider review of the Group as a whole.

The Company has net current liabilities of £63,965,000 (2016: £54,652,000) but included within this is an amount owed to group undertakings of £62,555,000 (2016: £55,709,000) of which £59,181,000 which is owed to Third Energy Holdings Limited (2016: £48,165,000). Amounts owed to group undertakings are repayable on demand. The Company meets its day-to-day working capital requirements through this loan facility and is dependent on these loans not being recalled. As at the time of approval of the financial statements this loan had increased to £59,480,000 (total amounts owed to group undertakings of £62,555,00).

2 Accounting policies (continued)

The Company has been operating for over 25 years and the wells that were previously drilled are mature and producing low volumes of gas. The Company is in the process of evaluating and developing the conventional and unconventional resources that exist within its licence areas. The revenue earned from the existing wells is, therefore, reducing and, as a result, the Company is reliant on sourcing of finance to fund the further exploration and development expenditure required to develop the conventional and unconventional resources. As noted above, financing was previously provided by Third Energy Holdings Limited which is, in turn, dependent on further financing. Currently financing is provided by Third Energy Holdings Limited to a level sufficient to only support day to day activities of the Company, and this is only expected to continue until the event of a sale of entities controlled by Third Energy Holdings Limited, if that sale is agreed in the short term (see below). Third Energy Holdings Limited is not expected to provide the required funding to support the necessary activities to enable the group to progress to cash generation and continue as a going concern.

In assessing the Company's ability to continue as a going concern, the Directors have prepared base and sensitised cash flow forecasts for a period in excess of 12 months from the date of authorisation of these financial statements. Base case forecasts indicate that the Company will require significant capital expenditure to develop the conventional and unconventional resources of £14m, £5m of which is forecast in the next 12 months. In addition, the Company needs further cash injections even to operate without the additional capital expenditure.

The Group is actively seeking alternative sources of funding which may involve the disposal of the Onshore business, including the company, depending on the outcome and the Group has appointed Lazard as its financial adviser to advise the Group in relation to its management of this process. The Group's finance provider indicated, on a non-reliance basis, that it intends to continue providing support to Third Energy Holdings Limited on a short term basis whilst the lender believes in its sole discretion that there is a reasonable prospect of a commercially acceptable outcome from the current processes in relation to the proposed sale of the Onshore, as well as the Offshore, businesses. There are a number of potential counterparties currently involved in this process so the directors are confident that this process will reach a successful conclusion. At the moment, however, the directors cannot guarantee a successful outcome to this process, the sale of the Company on a going concern basis in a timeframe before the financing support of the Group and Company is withdrawn. Additionally, while the Directors believe that sale of the Company on a going concern basis is a realistic possibility, there can be no certainty as to the intentions of any future owners, on whom the Company would be reliant for funding for ongoing needs and to fund the necessary development expenditure.

These conditions represents a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. These financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Group were unable to continue as a going concern.

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. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account 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.

2 Accounting policies (continued)

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.

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 (see "Basis of preparation" on page 9).

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 is made to ensure that the carrying value of these items does not exceed the value in use.

2 Accounting policies (continued)

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 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 profit or loss. 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 -

Motor vehicles and equipment	3 to 4 years	Straight line
Plant and Machinery	3 to 15 years	Straight line
Decommissioning asset	35 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.

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

3 **Operating loss**	2017	2016
	£'000	£'000
Operating loss is stated after charging:		
Depreciation of tangible assets	12	11
Auditor's remuneration in respect of the company	17	18
Operating leases - land and buildings	309	312

4 **Staff costs**	2017	2016
	£'000	£'000
Wages and salaries	476	462
Social security costs	47	44
Pension costs	37	34
	560	540

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:	2017	2016
	No	No
Management and administration	2	2
Technical and operations	13	14
	15	16

5 **Interest receivable**	2017	2016
	£'000	£'000
Bank interest receivable	-	1

6 **Interest payable and similar charges**	2017	2016
	£'000	£'000
Unwinding of discount on decommissioning provision	195	184
Other interest payable	6	6
	201	190

7 Taxation

	2017	2016
Analysis of charge in the period	£'000	£'000
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 before taxation	(3,582)	(3,405)
Loss before taxation multiplied by the combined rate of corporation tax and supplementary charge in the UK of 40% (2016: 40%)	(1,433)	(1,362)
Financing costs not deductible for SCT	1	1
Unrecognised deferred tax on losses	1,432	1,361
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 2017 was, therefore, 40% (2016: 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 2017 of £34.7m (2016: £33.3m) consisting of accumulated tax losses of £98.4m, accelerated capital allowances of £13.7m and other timing differences of £3.5m (2016: accumulated tax losses of £83.3m, accelerated capital allowances of £2.0m and other timing differences of £3.3m). 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.

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 2017	37,031	37,031
Additions	5,911	5,911
At 31 December 2017	42,942	42,942
Depreciation		
At 31 December 2017 and 31 December 2016	12,937	12,937
Net book value		
At 31 December 2017	30,005	30,005
At 31 December 2016	24,094	24,094

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 2017	9,948	2,236	1,226	106	13,516
Additions	10	18,528	2	13	18,553
Disposals	-	-	-	(7)	(7)
At 31 December 2017	9,958	20,764	1,228	112	32,062
Depreciation					
At 1 January 2017	9,604	2,010	1,186	97	12,897
Charge for the year	-	-	5	7	12
Removed on disposal	-	-	-	(7)	(7)
At 31 December 2017	9,604	2,010	1,191	97	12,902
Net book value					
At 31 December 2017	354	18,754	37	15	19,160
At 31 December 2016	344	226	40	9	619

10 Debtors

	2017 £'000	2016 £ 000
Trade debtors	4	25
Amounts owed by group companies	310	1,070
Prepayments and other income	331	314
Other debtors	308	43
	953	1,452

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

	2017	2016
	£'000	£'000
Trade creditors	1,280	176
Amounts owed to group undertakings	62,555	55,709
Taxation and social security costs	13	14
Other creditors	4	4
Accruals and deferred income	1,209	313
	65,061	56,216

Amounts owed to group undertakings include £59,181,000 which is owed to the ultimate parent company, Third Energy Holdings Limited (2016: £48,165,000). This amount is repayable on demand but the directors of Third Energy Holdings 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 £3,374,000 which is owed to fellow subsidiary companies (2016: £7,544,000). 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

	2017	2016
	£'000	£'000
Decommissioning costs		
At 1 January	3,531	3,347
Reassessment of decommissioning provision	18,528	-
Unwinding of discount to profit and loss account	195	184
At 31 December	22,254	3,531

Provision has been made for the discounted cost of restoring fields to a condition acceptable to the relevant authorities, which is not anticipated to happen until 35 years after the year end. The Company commissioned Well Decom Limited to calculate the current cost of decommissioning the fields, in the unlikely event that decommissioning was required immediately, and they reported in August 2018. This calculation has 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

	2017	2016
Ordinary shares of £1 each	No	No
Authorised	11,600	11,600
	£'000	£'000
Allotted, issued and fully paid	11,600	11,600

14 Statement of movement on reserves

	Profit and loss account
	£'000
Deficit at 1st January 2017	(50,862)
Loss for the financial year	(3,582)
Deficit at 31 December 2017	(54,444)

15 Reconciliation of movement in shareholders' funds

	2017	2016
	£'000	£'000
Opening deficit on shareholders' funds	(33,472)	(30,067)
Loss for the financial year	(3,582)	(3,405)
Closing deficit on shareholders' funds	(37,054)	(33,472)

16 Operating lease commitments

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

	2017	2016
	£'000	£'000
Within one year	165	165
Within two to five years	72	72
After five years	45	63
	282	300

During the year £309,000 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £312,000).

17 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 2017 was £nil (2016: £nil).

18 Contingent liabilities

The Group has entered into a contract with Halliburton Manufacturing and Services Limited ("Halliburton") for the provision of services to support its onshore development activities. As a result of this agreement, Halliburton may receive additional payments at a future date if these activities are successful. Due to the nature of the agreement, management are unable to quantify these additional payments at the balance sheet date.

19 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.

20 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 Knapton Generating Station, East Knapton, Malton, North Yorkshire YO17 8JF.

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