Registration number: 02855151

Spirit Energy Resources Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Spirit Energy Resources Limited

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Spirit Energy Resources Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report for Spirit Energy Resources Limited ('the Company') for the year ended 31 December 2019.

Principal activities
The principal activities of the Company are the production of oil and gas in the UK North Sea through its interest in oil and gas assets.

Review of the business
During the year ended 31 December 2019, oil and liquids production averaged 1,982 barrels per day (net) and gas production averaged 24.0 million cubic feet per day (net). This compares with average oil and liquids production of 2,683 barrels per day (net) and average gas production of 29.4 million cubic feet per day (net) during the year ended 31 December 2018. The Company recognised an exceptional credit of £15,207,000 (2018: £7,414,000) on the revision of the decommissioning provision of fully-impaired fields. Due to changing outlooks, the Company incurred impairment losses of £10,554,000 on the Grove field (2018: £13,811,000 reversal of impairment on the Grove field). The Company acquired the trade and assets of Spirit Energy WOS Limited.

In response to the challenges presented by COVID-19, as disclosed in the going concern statement and in note 25, the wider group has undertaken a review of operations in order to mitigate the liquidity risk. This action has enabled the Company to trade in the normal course of business and management remain vigilant to developments in the gas and oil sector. As part of an impairment review completed at 30 June 2020 further impairments of the development and production assets have been recognised totalling £10,477,000. The impairment is predominantly due to the reduction in near-term prices and long-term price forecasts. This impairment is however offset by a tax credit arising on the impairment charges of £4,191,000.

Financial position
The financial position of the Company is presented in the Balance Sheet on page 11. Total equity at 31 December 2019 was £83,715,000 (2018: deficit of £554,653,000).

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties, including COVID-19, are integrated with those of Spirit Energy Limited and its subsidiaries (the 'Group') of which the Company is a member and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, are disclosed on page 14 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report and are available at the address detailed in note 24 of these financial statements.

Exit from the European Union
The UK left the EU on 31 January 2020. The UK has now entered into the transition period which means EU law will continue to apply to, and within, the UK until the end of December 2020 (unless extended), and existing arrangements largely continue to apply. Therefore, the immediate impact on the Company of the UK leaving the EU is limited in the short term. Extricating from the European Union treaties is a task of immense complexity, but the Company is keeping the possible impacts on the business stemming from this under review, and also form the possibility of a no-deal Brexit at the end of the transition period in the event that a trade agreement is not reached so that appropriate action can be taken. There are also potential tax consequences of the withdrawal and these will continue to be reassessed at each reporting date to ensure the tax provisions reflect the most likely outcome following the withdrawal.

Key performance indicators ('KPIs')
The performance of the Company is included in the consolidated results of the Spirit Energy Limited (the 'Group'). The Directors of Spirit Energy Limited manage the Group on a divisional basis and use a number of KPIs to monitor progress against the Group's strategy. For this reason, the Company's Directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance and position of the business of the Company. A discussion of the Group KPIs is on page 12 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report and are available at the address detailed in note 24 of these financial statements.

Section 172(1) Statement
The Board and its individual Directors consider that they have acted in good faith in the manner that is most likely to promote the success of the Company for the benefit of its members as a whole and in doing so having regard to the stakeholders and matters set out in Section 172 of the Companies Act 2006.

A Director of a Company must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so have regard (amongst other matters) to:

- The likely consequences of any decisions in the long-term;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and environment;

Spirit Energy Resources Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Section 172(1) Statement (continued)

- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between shareholders of the Company.

The following paragraphs summarise how the Directors fulfil their duties:

Long-term success
From the perspective of the Company, the Directors believe that they have acted in a way that would most likely promote the long-term success of Spirit Energy Resources Limited. The Directors continually challenge the way the business works to ensure streamlined and efficient delivery to be a lean and agile business. The Directors focus on ensuring that the Company achieves industry-leading safety standards, deliver every possible barrel of production, and keep control of costs to generate superior returns and be resilient to fluctuations in commodity prices. The Company is funded via Spirit Energy Treasury Limited and the Company has the ability to deposit and access funds as required.

In addition, the Directors note the key role the Company plays in the wider Spirit Energy Group and to Spirit Energy Limited as parent Company and as such the principal risks and uncertainties of the Company are in line with those of the wider group. Further details are included in the Section 172(1) Statement on page 11 of the Annual report and financial statements of Spirit Energy Limited. The Directors of the Company are members of the Spirit Energy Limited Executive Committee.

Impact of operations
The Directors recognise the need to decarbonise energy systems and accept that in the foreseeable future oil and gas will play a significant part in that transition. The Directors' ambition is for the Company to be a top-quartile operator in terms of carbon intensity amongst peers. The Company aims to minimise primary production emissions through improved operational efficiency, reduced flaring and fugitive leak detection and repair programmes combined with reviewing the feasibility of low-carbon electricity to supply operations.

The Directors recognise the impact on communities as well and within Spirit Energy various community projects have taken place during 2019. In addition, Spirit Energy have also partnered with the Scottish Association for Mental Health for a second year.

Business relationships
Spirit Energy Resources Limited aims to build enduring relationships with suppliers driven by the Spirit Energy Group's values of care, agility, courage, delivery and collaboration. The Company is measured by these values and work closely with suppliers in encouraging them to do the same. During the year the Company awarded major contracts in the Operations and Maintenance categories, which have helped the Company reduce complexity and build stronger, deeper relationships with the selected suppliers.

In addition, as licence operator, Spirit Energy Resources Limited works closely with the Oil and Gas Authority and holds regular check-ins regarding business development and ongoing operations.

Future developments
From the perspective of the Company, the future developments are integrated within those of the Group and are not managed separately. The future developments of the Group are disclosed on page 13 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report.

It is expected that the Company will continue with its principal activities of the production of oil and gas in the UK North Sea through its interest in oil and gas assets.

Approved by the Board on 7 August 2020 and signed on its behalf by:

DocuSigned by:
Nicola Macleod
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NJ Macleod
Director

Company registered in England and Wales, No. 02855151

Registered office:
1st Floor
20 Kingston Road
Staines-Upon-Thames
England
TW18 4LG

Spirit Energy Resources Limited

Directors' Report for the Year Ended 31 December 2019

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

Directors of the Company
The Directors of the Company who were in office during the year, unless otherwise indicated, and up to the date of signing the financial statements were as follows:

GM Harrison
AD Le Poidevin (resigned 31 May 2019)
NJ Macleod
NJ McCulloch (appointed 1 January 2019)
DG Jones (appointed 1 November 2019)

Results and dividends
The results of the Company are set out on page 9. The loss for the financial year ended 31 December 2019 is £15,966,000 (2018: profit of £42,756,000).

No dividends were paid during the year (2018: £nil) and the Directors do not recommend the payment of a final dividend (2018: £nil).

Events after the balance sheet date
Significant events since the balance sheet date are contained in note 25 to the Financial Statements on page 37.

Future developments
Future developments are discussed in the Strategic Report on page 2.

Financial risk management
From the perspective of the Company, the financial risks are integrated within those of the Group and are not managed separately. The financial risk management of the Group are disclosed on pages 67 to 70 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report.

Going concern
The financial statements have been prepared on a going concern basis as Spirit Energy Limited, the immediate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Spirit Energy Limited intends to support the Company for at least one year after the financial statements have been authorised for issue until 27 September 2021.

The Group's principal risks and uncertainties are detailed in the Group's Strategic Report on page 14 and specifically explains the increased challenges the Group faces with COVID-19 and the depression in commodity prices. The Directors of the Company are satisfied that the actions and sensitivities included in the cash-flow forecasts prepared by Group adequately address the current risks and are therefore satisfied that the Group will be able to support the Company if required under all reasonably foreseeable circumstances.

Directors' insurance and indemnities
Spirit Energy Limited, the immediate parent undertaking of the Company, maintains directors' and officers' liability insurance in respect of its Directors and those Directors of its subsidiary companies. Qualifying third-party indemnity provisions, as defined in Section 234 of the Companies Act 2006, were in force for the benefit of the Directors of the Company during the year and up to and including the date of the Directors' report.

Disclosure of information to auditor

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Auditor

In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Approved by the Board on 7 August 2020 and signed on its behalf by:

DocuSigned by:
Nicola Macleod
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NJ Macleod
Director

Company registered in England and Wales, No. 02855151

Registered office:

1st Floor
20 Kingston Road
Staines-Upon-Thames
England
TW18 4LG

Spirit Energy Resources Limited

Statement of Directors' Responsibilities for the Year Ended 31 December 2019

The Directors are responsible for preparing the Strategic Report, 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), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

Spirit Energy Resources Limited

Independent Auditor's Report to the Member of Spirit Energy Resources Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Spirit Energy Resources Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We 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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Member of Spirit Energy Resources Limited (continued)

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

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Spirit Energy Resources Limited

Independent Auditor's Report to the Member of Spirit Energy Resources Limited (continued)

Use of our report

This report is made solely to the company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Graham Hollis
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Graham Hollis ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

7 August 2020

Spirit Energy Resources Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 (restated) £ 000
Revenue	5	172,647	261,571
Gain/(loss) on remeasurement of derivatives	6	32,658	(22,952)
Cost of sales	7	(154,386)	(163,971)
Gross profit		50,919	74,648
Operating costs	7	(68,937)	(8,725)
Exceptional items - impairment charges	8	(10,554)	-
Exceptional items - impairment reversals	8	-	13,811
Exceptional items - decommissioning provision revision	8	15,207	7,414
Operating (loss)/profit		(13,365)	87,148
Finance income	10	485	1,945
Finance cost	10	(22,176)	(21,098)
Net finance cost		(21,691)	(19,153)
(Loss)/profit before taxation		(35,056)	67,995
Tax credit/(charge)	12	19,090	(27,688)
(Loss)/profit for the year from continuing operations		(15,966)	40,307
Profit for the year from discontinued operations (net of taxation)	4	-	2,449
(Loss)/profit for the year		(15,966)	42,756

The Company has amended the presentation of energy derivative contracts following an IFRIC agenda decision in March 2019 and a review of its trading business. Prior year results have been restated accordingly. See note 2 for further details.

The results in the above Income Statement relate to continuing operations.

Spirit Energy Resources Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	2019 £ 000	2018 £ 000 Continuing operations	2018 £ 000 Discontinued operations
(Loss)/profit for the year	(15,966)	40,307	2,449
Items that will be or have been reclassified to the Income Statement			
Net gain on cash flow hedges	684	123	-
Exchange differences on translating foreign operations	(1,350)	(336)	-
Taxation on cash flow hedges	-	(21)	-
Other comprehensive loss net of taxation	(666)	(234)	-
Total comprehensive (loss)/income for the year	(16,632)	40,073	2,449

Spirit Energy Resources Limited

Balance Sheet as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Property, plant and equipment	13	138,419	200,126
Intangible assets	14	126,247	2,013
Deferred tax assets	12	188,866	175,072
Derivative financial instruments	23	5,426	5,802
		458,958	383,013
Current assets			
Inventories	16	21,246	18,963
Trade and other receivables	15	226,877	38,304
Derivative financial instruments	23	20,179	11,937
Current tax assets		8,095	9,266
Cash and cash equivalents		1,417	2,605
		277,814	81,075
Total assets		736,772	464,088
Current liabilities			
Trade and other payables	17	(151,013)	(457,862)
Derivative financial instruments	23	(3,484)	(11,683)
Provisions for other liabilities and charges	18	(8,659)	(16,712)
Borrowings	19	(210)	-
		(163,366)	(486,257)
Net current assets/(liabilities)		114,448	(405,182)
Total assets less current liabilities		573,406	(22,169)
Non-current liabilities			
Derivative financial instruments	23	(651)	(1,830)
Provisions for other liabilities and charges	18	(488,919)	(530,654)
Borrowings	19	(121)	-
		(489,691)	(532,484)
Total liabilities		(653,057)	(1,018,741)
Net assets/(liabilities)		83,715	(554,653)
Equity			
Share capital	20	775,000	120,000
Retained losses	20	(662,765)	(646,799)
Cash flow hedge reserve	20	1,003	319
Other deficit	20	(29,523)	(28,173)
Total equity/(deficit)		83,715	(554,653)

The notes on pages 14 to 37 form an integral part of these financial statements.

Spirit Energy Resources Limited

Balance Sheet as at 31 December 2019 (continued)

The financial statements on pages 9 to 37 were approved and authorised for issue by the Board of Directors on 7 August 2020 and signed on its behalf by:

DocuSigned by:
Nicola Macleod
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NJ Macleod
Director

Company number 02855151

The notes on pages 14 to 37 form an integral part of these financial statements.

Spirit Energy Resources Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £ 000	Cash flow hedge reserve £ 000	Other deficit £ 000	Retained losses £ 000	Total deficit £ 000
At 1 January 2019	120,000	319	(28,173)	(646,799)	(554,653)
Loss for the year	-	-	-	(15,966)	(15,966)
Other comprehensive income/(loss)	-	684	(1,350)	-	(666)
Total comprehensive income/(loss)	-	684	(1,350)	(15,966)	(16,632)
Issue of shares (note 20)	655,000	-	-	-	655,000
At 31 December 2019	775,000	1,003	(29,523)	(662,765)	83,715

	Share capital £ 000	Cash flow hedge reserve £ 000	Other deficit £ 000	Retained losses £ 000	Total deficit £ 000
At 1 January 2018	120,000	217	(27,837)	(689,555)	(597,175)
Profit for the year	-	-	-	42,756	42,756
Other comprehensive (loss)/income	-	102	(336)	-	(234)
Total comprehensive (loss)/income	-	102	(336)	42,756	42,522
At 31 December 2018	120,000	319	(28,173)	(646,799)	(554,653)

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1. General information

Spirit Energy Resources Limited ('the Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales.

The address of its registered office and principal place of business is:

1st Floor
20 Kingston Road
Staines-upon-Thames
England
TW18 4LG

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 2.

2. Accounting policies

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 issued by the Financial Reporting Council. The financial statements therefore have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company has adopted IFRS 16: 'Leases' from 1 January 2019. In accordance with the modified retrospective approach the opening balances have been adjusted to show a right-of-use assets ('ROU'), to represent the Company's rights to use the underlying assets, and a lease liability, to represent the Company's obligation to make lease payments.

In accordance with the transition provisions of IFRS 16, for contracts entered into before 1 January 2019, the requirements of the standard have been applied only to contracts previously identified as leases in accordance with IAS 17: 'Leases' or IFRIC 4: 'Determining Whether an Arrangement Contains a Lease'. For contracts entered into or modified after that date, the definition of a lease in IFRS 16 has been applied. On application of IFRS 16, comparative information has not been restated.

The Company utilised the recognition exemptions for both short-term leases applicable to machinery, property and exploration and production assets that have a lease term of 12 months or less and for leases of low value assets (underlying asset value less than £5,000), including IT equipment. The lease payments associated with those leases are recognised as an expense on a straight-line basis over the lease term. The Company has also applied wherever applicable the following transition allowances:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessment of whether leases are onerous in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Asset's immediately before the date of initial application as an alternative to performing an impairment review;
- election not to apply the measurement requirements of the standard to leases where the term ends within 12 months of the date of initial application;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

On transition, the Company measured lease liabilities for leases previously assessed as operating at the present value of the remaining lease payments and elected to measure the associated right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. For arrangements previously assessed as finance leases, the asset and liability balances at 31 December 2018 were carried forward as the opening IFRS 16 balances and subsequently measured in accordance with the new standard.

2. Accounting policies (continued)

Application resulted in the recognition of total lease liabilities and right-of-use assets on 1 January of £577,000 and £577,000, respectively. £nil of the lease liability is incremental to the IAS 17 position. Right-of-use assets are presented in Property, plant and equipment on the Balance Sheet. Lease liabilities are included in Current and Non-current Borrowings.

A reconciliation of the opening lease commitments to the opening IFRS 16 lease liability is shown below, along with a summary of the key judgements applied by the Company in determining these opening positions:

	£ 000
Operating lease obligations as at 31 December 2018	-
Minimum lease payments on finance lease liabilities at 31 December 2018	11,343
Recognition of lease agreements within joint operations	591
Gross lease liabilities at 1 January 2019	11,934
Discounting	(14)
Present value of lease liabilities at 31 December 2018	(11,343)
Additional lease liabilities following initial application of IFRS 16 as at 1 January 2019	577

The lease liabilities were discounted at the incremental borrowing rate as at 1 January 2019. The weighted average discount rate was 2%.

Restatements

In March 2019, the International Financial Reporting Interpretations Committee ("IFRIC") issued an agenda decision on the Physical Settlement of Contracts to Buy or Sell a non-Financial item. It was concluded that for physical commodity trades within the scope of IFRS 9: 'Financial instruments', entities should not transfer previously recognised, unrealised market-to-market movements to different Income Statement line items upon realisation. As the Company previously recognised fair value movements on the re-measurement of certain energy contracts net within cost of sales up to the point of realisation (when the underlying contract would be recognised in revenue), presentation of the Company's revenue and re-measurement of energy contracts for the year ended 31 December 2018 has been amended to comply with the requirements of the IFRIC agenda decision. Comparative results have been represented with no impact on gross profit.

The impact of realised and unrealised positions, in accordance with IFRS 9, will be reflected in the 'Re-measurement of energy contracts' line in the Income Statement. The effect of this re-presentation for 2018 is an increase in revenue of £43,000,000 and re-measurement loss of energy contracts of £43,000,000.

Significant Changes in the Company's Accounting Policy applicable from 1 January 2019

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

2. Accounting policies (continued)

Basis of preparation (continued)

Significant Changes in the Company's Accounting Policy applicable from 1 January 2019 (continued)

Lease payments included in the measurement of the lease liability comprise: fixed payments (including in-substance fixed payments), variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early. Variable lease payments that do not depend on an index or rate are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, lease-term extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company recognises the lease payments associated with short-term leases (leases expiring within twelve months from commencement) and leases of low value assets (underlying asset value less than £5,000) on a straight-line basis over the lease term.

From 1 January 2019, the following amendments are effective in the Company's financial statements. Their first-time adoption did not have a material impact on the financial statements:

- IFRIC 23 'Uncertainty over Income Tax Treatments'; and
- Amendments of IFRS 9 'Prepayment features with negative compensation'

As the Annual report and financial statements of Spirit Energy Limited (the 'Group'), which are available from its registered office, include the equivalent disclosures, the Company, as a qualifying entity, has taken the exemptions under FRS 101 available in respect of the following disclosures:

- the requirements of IFRS 7 'Financial Instruments: Disclosures';
- the requirements of IAS 7 'Statement of Cash Flows;
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- prior year reconciliations for property, plant and equipment;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related-party transactions with wholly-owned subsidiaries in a group; and
- disclosures in respect of capital management.

Measurement convention

The financial statements have been prepared on the historical cost basis except for derivative financial instruments that have been measured at fair value.

Going concern

The financial statements have been prepared on a going concern basis as Spirit Energy Limited, the immediate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Spirit Energy Limited intends to support the Company for at least one year after the financial statements have been authorised for issue until 27 September 2021.

2. Accounting policies (continued)

Going concern (continued)

The Group's principal risks and uncertainties are detailed in the Group's Strategic Report on page 14 and specifically explains the increased challenges the Group faces with COVID-19 and the depression in commodity prices. The Directors of the Company are satisfied that the actions and sensitivities included in the cash-flow forecasts prepared by Group adequately address the current risks and are therefore satisfied that the Group will be able to support the Company if required under all reasonably foreseeable circumstances.

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when the customer obtains control of the goods. For oil and natural gas, this generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue from the production of natural gas, oil and condensates in which the Company has an interest with other producers is recognised based on the Company's working interest and the terms of the relevant production sharing arrangements (the entitlement method).

Where differences arise between production sold and the Company's share of production, this is accounted for as an overlift or underlift (see separate accounting policy). Purchases and sales entered into to optimise the performance of production facilities are presented net within revenue.

Revenue is shown net of sales/value added tax, returns, rebates and discounts.

Finance income

Finance income is recognised in the Income Statement in the period in which the income is earned.

Finance costs

Finance costs are recognised in the Income Statement in the period in which they are incurred.

Cost of sales

Cost of sales relating to gas and oil production includes depreciation of assets used in production of gas and oil and direct labour costs.

Overlift and underlift

Off-take arrangements for oil and gas produced from joint operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the reporting date within trade and other payables, or trade and other receivables, respectively, and measured at market value, with movements in the period recognised within cost of sales.

Foreign currencies

These financial statements are presented in pound sterling (with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated), which is also the functional currency of the Company (the functional currency of the Trinidad branch is the US dollar and some of the Company's assets form a division, which is considered to have Euro functional currency). Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency of the Company at the rates prevailing at the reporting date, and associated gains and losses are recognised in the Income Statement for the year, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance income' or 'finance cost'. All other foreign exchange gains and losses are presented in the Income Statement in the respective financial line item to which they relate.

2. Accounting policies (continued)

Foreign currencies (continued)

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the Company are translated using the exchange rate prevailing at the dates of the initial transaction and are not retranslated. Non-monetary items measured at fair value in foreign currencies are retranslated at the rates prevailing at the date when the fair value was measured.

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Company's foreign currency translation reserve included in other equity.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the reporting date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if impairment of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same tax jurisdiction, in the foreseeable future, against which the deductible temporary differences can be utilised.

Deferred tax is provided on temporary differences except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

IFRIC 23 'Uncertainty over Income Tax Treatments' is effective from 1 January 2019. The guidelines provided have been considered and as a result there is no material change to the tax provisions.

Exploration and evaluation ('E&E') assets and development and production assets

The Company uses the successful efforts method of accounting for E&E expenditure. E&E expenditure associated with an exploration well, including acquisition costs related to E&E activities are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure including licence acquisition costs is transferred to property, plant and equipment. If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as property, plant and equipment ('PP&E'). Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. PP&E, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method ('UOP'), based on all of the proven and probable ('2P') reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is compared on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration assets are reviewed annually for indicators of impairment and production and development assets are tested annually for impairment.

2. Accounting policies (continued)

Depreciation of PP&E

Depreciation is charged as follows:

Asset class	Depreciation method and rate
Development and production assets	UOP, based on 2P reserves

Assets held under leases are depreciated over their expected useful lives on the same basis as for owned assets, or where shorter, the lease term.

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

Interests in joint arrangements and associates

Under IFRS 11, joint arrangements are those that convey joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Associates are investments over which the Company has significant influence but not control or joint control, and generally holds between 20% and 50% of the voting rights. The Company's joint ventures and associates are accounted for at cost in accordance with IAS 27, less any provision for impairment as necessary.

The Company's interests in joint operations (oil and gas exploration and production licence arrangements) are accounted for by recognising its assets (including its share of assets held jointly), its liabilities (including its share of liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Where the Company has an equity stake or a participating interest in operations governed by a joint arrangement for which it is acting as operator, an assessment is carried out to confirm whether the Company is acting as agent or principal. As the terms and conditions negotiated between business partners usually provide joint control to the parties over the relevant activities of the oil and gas fields that are governed by joint arrangements, the Company is usually deemed to be an agent when it is appointed as operator and not a principal (as the contracts entered into do not convey control to the parties). Accordingly, the Company recognises its equity share of assets, liabilities, revenue and expenses of these arrangements as outlined above except that it presents gross liabilities and gross receivables of the joint venture (including amounts due to or from non-operating partners) in accordance with netting requirements under IAS 32 'Financial instruments: presentation'.

Inventories

Commodity inventories (oil and gas) are valued at market value. Other inventories are valued on a weighted-average cost basis, at the lower of cost, or estimated net realisable value after allowance for redundant and slow-moving items.

The cost of inventories includes the purchase price plus costs of conversion incurred in bringing the inventories to their present location and condition.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate at the reporting date of the expenditure required to settle the obligation, and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement within finance cost.

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2. Accounting policies (continued)

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas and oil production facilities at the end of the producing lives of fields, based on price levels and technology at the balance sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. If there is an indication that the new carrying amount of the asset is not fully recoverable, the asset is tested for impairment and an impairment loss is recognised where necessary. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the Income Statement within finance cost.

Exceptional items

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. To ensure the business performance reflects the underlying results of the Company, these exceptional items are disclosed separately in the Income Statement. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs/impairments.

Impairment

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed for indications of impairment at each reporting date or earlier if events or circumstances indicate an impairment may exist. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ('CGU') is the greater of its value in use and its fair value less costs of disposal. 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 CGU).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. 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 if there has been a change in the estimates used to determine the recoverable amount.

The Company provides for impairments of financial assets when there is objective evidence of impairment as a result of events that impact the estimated future cashflows of financial assets.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. In accordance with IFRS 9: *'Financial instruments'*, the Group has applied the ECL model to the financial assets at the balance sheet date as opposed to only incurred credit losses, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. Either the lifetime expected credit loss or a twelve-month expected credit loss is provided for, depending on the Company's assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

2. Accounting policies (continued)

Financial instruments (continued)

a) Trade and other receivables

Trade receivables are amounts due from customers for hydrocarbons sold in the ordinary course of business.

Trade receivables and related-party receivables are initially recognised at fair value, which for trade receivables is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method (although, in practice, the discounting is often immaterial) less an impairment provision calculated under the expected credit loss model. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not, they are presented as non-current assets.

b) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers..

Trade payables and related-party payables are initially recognised at fair value, which for trade payables is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method (although, in practice, the discounting is often immaterial).
If payment is due within one year or less, payables are classified as current liabilities. If not, they are presented as non-current liabilities.

c) Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions. Cash equivalents include cash on deposit with related parties, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

e) Loans and other borrowings

All interest-bearing and interest-free loans and other borrowings are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, these financial instruments are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

f) Derivative financial instruments

The Company routinely enters into sale contracts for the physical delivery of gas and oil. These contracts are entered into and continue to be held for the purpose of delivery of the physical commodity in accordance with the Company's expected sale requirements ('own use') and are not within the scope of IFRS 9.

The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Group's Annual report and financial statements for the year ended 31 December 2019 in the Strategic Report – Principal Risks and Uncertainties on page 14 and in note S2.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Certain derivative instruments do not qualify for hedge accounting. Such derivatives are measured at fair value in the Balance Sheet, and changes in the fair value that do not qualify for hedge accounting are recognised immediately in the Income Statement.

2. Accounting policies (continued)

Financial instruments (continued)

f) Derivative financial instruments (continued)

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

The Company enters into certain energy derivative contracts, the fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred (not recognised) and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the Income Statement.

g) Hedge accounting

For the purposes of hedge accounting, hedges are classified as cash flow hedges. A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or a highly probable forecast transaction. The Company's cash flow hedges consist of forward foreign exchange contracts used to protect against the variability of functional currency denominated cash flows associated with non-functional currency denominated highly probable forecast transactions.

The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Income Statement. The gains and losses that are initially recognised in the cash flow reserve in the Statement of Comprehensive Income are transferred to the Income Statement in the same period in which the highly probable forecast transaction affects income. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability on its recognition. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Company revokes the designation. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the highly probable forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Income Statement.

The ineffective portion of gains and losses on cash flow hedging is recognised immediately in the Income Statement.

The Company's normal operating activities expose it to a variety of financial risks: market risk (including commodity price risk and currency risk), credit risk and liquidity risk. The Company maintains strict policies to manage its financial risks as approved by the Directors. This includes the use of financial derivative instruments to hedge certain of these exposures.

It is Company policy that all transactions involving derivatives must be directly related to the underlying business activities of the Company. The Company does not enter into or trade financial instruments, including derivatives for speculative purposes.

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

a) Critical judgements in applying the Company's accounting policies

Such key judgements include the presentation of elected items as exceptional (see note 8). No other key judgements have been made by the Directors in applying the Company's accounting policies.

b) Key sources of estimation uncertainty

Key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Decommissioning costs (note 18)

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed annually and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the reporting date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities but are currently anticipated to be incurred until 2049 (2018: 2038).

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. The real discount rate used to discount the decommissioning liabilities at 31 December 2019 is unchanged at 1.2%.

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described in the Annual report and financial statements of the group on page 79.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

Determination of fair values - energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). The judgements and the assumptions underpinning these judgements are considered to be appropriate.

Impairment of long-lived assets

The Company has several material long-lived assets that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or CGUs are recoverable. The key assets that are subjected to impairment tests are development and production assets the carrying value of which is £138,419,000 (2018: £200,126,000) as at 31 December 2019 (See note 13). The exploration and evaluation assets are also subjected to impairment tests the carrying value of which is £126,247,000 (2018: £2,013,000) as at 31 December 2019 (See note 14). As part of an impairment review completed at 30 June 2020 further impairments of the development and production assets have been recognised totalling £10,477,000, offset by a tax credit arising on the impairment charges of £4,191,000. Further details have been included in note 25.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Upstream gas and oil assets

The recoverable amount of the Company's gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives taking into account those assumptions that market participants would take into account when assessing fair value. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs which requires professional judgement and assumptions to be used.

The valuation of exploration and production assets are particularly sensitive to the price assumptions made in the impairment calculations and the price assumptions for gas and oil have been varied by +/- 10%. A 10% increase in the price assumption results in a reduction of £22,000,000 of the impairment charge for the Greater Markham Area. A decrease of 10% causes an increase in impairment of £25,000,000 for this asset. Changes in the price generate different production profiles and, in some cases, the date that an asset ceases production.

4. Discontinued operations

During the prior year, the Company agreed to sell its interests in the Armada Area (including the Armada, Seymour and Maria fields) to Chrysaor Limited for de minimis consideration. The economic date for the sale was 1 January 2018 and it was completed on 1 June 2018. The profit on disposal was £2,449,000 and is included in the Income Statement within results from discontinued operations. The decommissioning liability for the interest has been retained and is capped at the current pre-tax estimate of £86,000,000.

The results of the discontinued operations, which have been included in the Income Statement, were as follows:

	2019 £'000	2018 £'000
Gain on disposal of assets (disposal groups) held for sale	-	2,449

5. Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

By activity:

	2019 £ 000	2018 (restated) £ 000
Sale of gas and liquids from production	172,647	261,571
	172,647	261,571

By geography:

	2019 £ 000	2018 (restated) £ 000
United Kingdom	171,952	257,232
The Netherlands	695	2,772
Rest of the world	-	1,567
	172,647	261,571

The Company has amended the presentation of energy derivative contracts following an IFRIC agenda decision in March 2019 and a review of its trading business. Prior year results have been restated accordingly. See note 2 for further details.

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6. Remeasurement of derivatives

	2019	2018
	£ 000	£ 000
Remeasurement of foreign exchange derivatives	7,771	29,751
Remeasurement of energy derivatives	24,887	(52,703)
Gain/(loss) on the remeasurement of derivatives	32,658	(22,952)

The Company has amended the presentation of energy derivative contracts following an IFRIC agenda decision in March 2019 and a review of its trading business. Prior year results have been restated accordingly. See note 2 for further details.

7. Analysis of costs by nature

Year ended 31 December	2019			2018		
	Cost of sales	Operating costs	Total costs	Cost of sales	Operating costs	Total costs
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Transportation, distribution and metering costs	20,218	-	20,218	31,493	-	31,493
Inventories written back (note 16)	-	(419)	(419)	-	(203)	(203)
Depreciation and impairment (note 13 and 14)	54,339	54,966	109,305	58,845	-	58,845
Foreign exchange losses	-	1,184	1,184	-	44	44
Other operating costs	79,829	13,206	93,035	73,633	8,884	82,517
Total operating costs by nature	154,386	68,937	223,323	163,971	8,725	172,696

The Company did not have any employees in the current or prior year.

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

8. Exceptional items

The following exceptional items were recognised in arriving at operating (loss)/profit for the year:

	2019 £ 000	2018 £ 000
Impairment charges (note 13)	(10,554)	-
Impairment reversals	-	13,811
Decommissioning provision revision	15,207	7,414
	4,653	21,225

During the year, the Company:
-incurred an impairment charge of £10,554,000 on the Grove field as a result of a reassessment of the development based on future prices.
- recognised an exceptional credit of £15,207,000 on the revision of the decommissioning provision of fully-impaired fields.

During the prior year, the Company:
- reversed impairment losses of £13,811,000 on the Grove field due to an improving outlook based on price and reserves;
- recognised an exceptional credit of £7,414,000 on the revision of the decommissioning provision of fully-impaired fields.

The cashflows are based on a base gas price of 40 pence per therm, a 5-year price of 61p per therm, a 10-year price of 71p per therm, an inflation rate of 2% and exchange rate of £1 to €1.16. A reduction in the base gas price of 10% would result in a further impairment of £3,077,000.

9. Directors' remuneration

The Directors' remuneration for the year was as follows:

	2019 £ 000	2018 £ 000
Directors' emoluments	695	580
Compensation for loss of office	-	26
	695	606

Remuneration of the highest paid Director:

	2019 £ 000	2018 £ 000
Director emoluments	188	151

During the current and prior year, the highest paid Director did not exercise share options and did not receive shares under a long-term incentive scheme.

During the year, the number of Directors who received post-employment benefits and share incentives was as follows:

	2019 No.	2018 No.
Accruing benefits under money purchase pension scheme	-	6

10. Net finance cost

Finance income

	2019 £ 000	2018 £ 000
Net changes in fair value of foreign exchange contracts	186	48
Net foreign exchange gains on financing transactions	-	1,857
Other interest income	299	40
Total finance income	485	1,945

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

10. Net finance cost (continued)

Finance cost

	2019 £ 000	2018 £ 000
Interest on amounts owed to fellow Group undertakings	(13,953)	(14,347)
Interest expense on obligations under finance leases	(9)	-
Net foreign exchange losses on financing transactions	(1,647)	-
Unwind of discount on provisions (note 18)	(6,567)	(6,751)
Total finance cost	(22,176)	(21,098)
Net finance cost	(21,691)	(19,153)

11. Auditor's remuneration

The Company paid the following amounts to its auditor in respect of the audit of the Company's financial statements.

	2019 £ 000	2018 £ 000
Audit fees	30	30

12. Tax

Tax (credited)/charged in the Income Statement

	2019 £ 000	2018 £ 000
Current tax		
UK corporation tax at 40% (2018: 40%)	(4,200)	26,203
UK corporation tax adjustment to prior years	(156)	4,021
UK petroleum revenue tax	(940)	(1,990)
Total current tax	(5,296)	28,234
Deferred tax		
Origination and reversal of temporary differences - UK	(17,551)	14,013
UK petroleum revenue tax	4,722	(15,715)
Adjustments in respect of prior years - UK	(965)	1,156
Total deferred tax	(13,794)	(546)
Tax (credit)/charge	(19,090)	27,688

The main rate of corporation tax for the year to 31 December 2019 was 19% (2018: 19%). The deferred tax assets and liabilities included in these financial statements are based on the rate of 19%.

Upstream gas and oil production activities are taxed at a corporation tax rate of 30% (2018: 30%) plus a supplementary charge of 10% (2018: 10%) to give an overall rate of 40% (2018: 40%). In addition, certain upstream assets in the UK attract petroleum revenue tax ('PRT') at 0% (2018: 0%), giving an overall effective rate of 40% (2018: 40%). Upstream deferred tax assets and liabilities included in these financial statements are based on the 40% overall effective tax rate having regard for their reversal profiles.

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12. Tax (continued)

The differences between the taxes shown above and the amounts calculated by applying the standard rate of UK corporation tax to the (loss)/profit before tax are reconciled below:

	2019 £ 000	2018 £ 000
(Loss)/profit before tax - continuing operations	(35,056)	67,995
Profit before tax - discontinued operations (note 4)	-	2,449
(Loss)/profit before tax	(35,056)	70,444
Tax on (loss)/profit at standard UK corporation tax rate of 40% (2018: 40%)	(14,022)	28,178
Effects of:		
Additional relief on abandonment expenditure	(9,357)	1,473
Increase/(decrease) from effect of different UK tax rates on some earnings	3,043	2,604
Adjustments in respect of prior years	(1,121)	5,178
Non ring fence losses value not recognised	517	-
CT impact of petroleum revenue tax	(1,513)	7,474
Ring fence expenditure supplement claimed	(2,016)	-
UK petroleum revenue tax	(940)	(1,990)
Impact of asset disposal	-	(980)
Deferred petroleum revenue tax	4,722	(15,715)
Net expenses non-deductible for tax purposes	1,597	1,466
Total tax	(19,090)	27,688
Split as follows:		
Total tax from continuing operations	(19,090)	27,688
Total tax from discontinued operations (note 4)	-	-

The movements in respect of the deferred income tax assets and liabilities that occurred during the financial year are as follows:

	Accelerated tax depreciation (corporation tax) £ 000	Other timing differences including losses carried forward £ 000	Other provisions £ 000	Total £ 000
1 January 2018	(57,148)	14,388	217,286	174,526
(Charged)/credited to the Income Statement	(2,733)	3,652	(373)	546
31 December 2018	(59,881)	18,040	216,913	175,072
(Charged)/credited to the Income Statement	(6,650)	13,858	6,586	13,794
31 December 2019	(66,531)	31,898	223,499	188,866

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12. Tax (continued)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. A deferred tax asset of £19,316,000 (2018: £17,235,000) in respect of investment allowances has not been recognised as at 31 December 2018 as management consider it is more likely than not that these allowances will not be recoverable from future taxable profits in the foreseeable future. A net deferred tax asset of £188,866,000 (2018: £175,072,000) has been recognised on the Balance Sheet because there is sufficient evidence that the tax attributes will be used against future taxable profits. A deferred tax asset of £517,000 (2018: £nil) in respect of non ring-fence losses has not been recognised as at 31 December 2019 as management consider it is more likely than not that taxable profits will not be available in the foreseeable future against which to relieve these losses.

13. Property, plant and equipment

	Development and production assets £ 000
Cost	
At 1 January 2019	3,199,979
IFRS 16 adjustment (note 2)	577
Adjusted opening balance	3,200,556
Additions	33,980
Revision to decommissioning assets (note 18)	(29,387)
Transfer to intangible assets (note 14)	(650)
Retranslation of foreign currency balances	(25,997)
At 31 December 2019	3,178,502
Accumulated depreciation and impairment	
At 1 January 2019	(2,999,853)
Depreciation charge for the year (note 7)	(54,588)
Impairment charge (note 8)	(10,554)
Retranslation of foreign currency balances	24,912
At 31 December 2019	(3,040,083)
Net book value	
At 31 December 2019	138,419
At 31 December 2018	200,126

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

13. Property, plant and equipment (continued)

Impairment
During the year, the Company incurred an impairment charge of £10,554,000 on the Grove field due to a revised outlook based on prices and reserves. Further details on the impairment charge are included in note 8.

In the prior year, the Company reversed impairment losses of £13,811,000 on the Grove field due to an improving outlook based on prices and reserves.

The recoverable amounts of the assets are categorised in Level 3 (as described in note 23) of the fair value hierarchy and have been calculated on a fair value less costs of disposal basis.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 9.0% (2018: 9.5%) to determine fair value less costs of disposal.

There were no other impairment indicators identified as at 31 December 2019 or 31 December 2018 in relation to the remaining property, plant and equipment assets.

As at 30 June 2020 further impairments have been recorded and further details are included in note 25.

The right-of-use assets (as explained in note 2) included in the above carrying amounts are as follows:

	Development & production assets £ 000
Cost	
At 1 January 2019	577
At 31 December 2019	577
Accumulated depreciation and impairment	
At 1 January 2019	-
Depreciation charge for the year	(249)
At 31 December 2019	(249)
Net book value	
At 31 December 2019	328
At 31 December 2018	-

14. Intangible assets

	Exploration and evaluation assets £ 000
Cost or valuation	
At 1 January 2019	4,163
Additions	58,558
Acquired from Spirit Energy WOS Limited	119,742
Transfer from fixed assets (note 13)	650
At 31 December 2019	183,113
Impairment	
At 1 January 2019	(2,150)
Impairment charge (note 7)	(54,716)
	(56,866)
Net book value	
At 31 December 2019	126,247
At 31 December 2018	2,013

During the year the Company acquired the licences in the Lincoln and Warwick discoveries from Spirit Energy WOS Limited.

Impairment

During the current year, the Company recognised impairment charges in relation to the Warwick and Andromeda assets.

During the prior year, the Company recognised an impairment charge on the Olympus field of £2,150,000.

15. Trade and other receivables

	2019 £ 000	2018 £ 000
Trade receivables	4,468	1,844
Amounts owed by fellow Group undertakings	191,881	3,360
Amounts owed from other related parties (note 22)	3,994	4,615
Prepayments	221	95
Accrued income	3,758	6,131
Other receivables	22,555	22,259
	226,877	38,304

Included within the net amounts owed by Group undertakings disclosed above is £188,589,000 (2018: £329,112,000 owed to group undertakings) that was charged interest at the monthly rates ranging between 3.25% and 3.74% (2018: ranged between 3.25% and 3.74%). The amounts owed by fellow Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. The amounts owed by Group undertakings are interest-free, unsecured and repayable on demand.

The expected credit loss (ECL) on amounts due to fellow Spirit Energy Group undertakings has been calculated on the basis of a twelve-month ECL as there has been no significant increase in credit risk since the inception of the loans. The level of the ECL is considered to be immaterial as the undertakings have the financial support of Spirit Energy Limited, the immediate parent company.

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16. Inventories

	2019 £ 000	2018 £ 000
Operational spares and consumables	11,180	18,963
Oil in storage and transportation	10,066	-
	21,246	18,963

Operational spares and consumables recognised as an expense in the year and included in cost of sales amounted to £nil (2018: £nil). The write-down of inventories to net realisable value amounted to £59,000 (2018: £nil) and is included in operating costs and relate to inventory for the York asset following asset reviews.
The reversal of write-downs amounted to £478,000 (2018: £203,000). The reversals of write-downs are included in operating costs and relate to inventory for the York asset following assets reviews.

There is no significant difference between the replacement cost of inventories and their carrying amounts.

17. Trade and other payables

	2019 £ 000	2018 £ 000
Trade payables	9,251	3,187
Accrued expenses	9,224	9,321
Amounts owed to fellow Group undertakings	77,690	416,260
Amounts owed to other related parties (note 22)	1,019	13,486
Capital payables	34,891	-
Other payables	18,938	15,608
	151,013	457,862

The amounts owed to fellow Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Amounts owed to fellow Group undertakings include amounts payable under finance leases within one year of nil (2018: £3,279,000) and over one year of £nil (2018: £11,343,000), which bear interest at 4% (2018: 4%). The other net amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

18. Provisions for other liabilities and charges

	Decommissioning £ 000	Other provisions £ 000	Total £ 000
At 1 January 2019	547,353	13	547,366
Charged to the Income Statement	3,917	-	3,917
Unused provision reversed to Income Statement	(21,903)	-	(21,903)
Revision to provision on existing assets (Note 13)	(29,387)	-	(29,387)
Provisions used	(6,572)	-	(6,572)
Retranslation of foreign currency balances	(2,410)	-	(2,410)
Increase due to discount unwinding (Note 10)	6,567	-	6,567
At 31 December 2019	497,565	13	497,578
Non-current liabilities	488,906	13	488,919
Current liabilities	8,659	-	8,659

18. Provisions for other liabilities and charges (continued)

Decommissioning

The Company has recognised provisions for its obligations to decommission its oil and gas fields at the end of their operating lives. The provisions recognised represent the best estimate at the current reporting date of the expenditures required to settle the present obligation at the current reporting date based on existing technology and current legislation requirements. Such cost estimates expressed at current price levels at the date of the estimate are discounted using a long-term pre-tax real rate of 1.2% (2018: 1.2%).

The timing of the decommissioning payments are dependent on the lives of a number of fields but are anticipated to occur between 2020 and 2049 (2018: 2019 and 2038).

Other provisions

Other provisions include amounts in respect of taxation on share-based payments. The provision presented is undiscounted as the impact of discounting is considered to be immaterial.

19. Borrowings

	2019 £ 000	2018 £ 000
Non-Current bank overdrafts, loans and borrowings		
Lease liabilities	121	-
Current bank overdrafts, loans and borrowings		
Lease liabilities	210	-

The maturity analysis for lease liabilities is as follows:

	2019 £ 000	2018 £ 000
Within 1 year	210	-
1 -2 years	121	-
	331	-

20. Capital and reserves

Share capital

Allotted, called up, authorised and fully paid shares

	2019 No. 000	£ 000	2018 No. 000	£ 000
Ordinary shares of £1 each	775,000	775,000	120,000	120,000

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

New shares issued

During the year 655,000,000 Ordinary shares having an aggregate nominal value of £655,000,000 were issued for an aggregate consideration of £655,000,000 to Spirit Energy Limited in order to settle balances owed to Spirit Energy Treasury Limited.

Reserves

Cash flow hedge reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IFRS 9. Amounts are transferred from the cash flow hedging reserve to the Income Statement or the Balance Sheet as and when the hedged item affects the Income Statement or the Balance Sheet which is, for the most part, on receipt or payment of amounts denominated in foreign currencies and settlement of interest on debt instruments. This is included within other deficit on the balance sheet and is non-distributable.

20. Capital and reserves (continued)

Reserves (continued)

Other deficit

The other deficit caption is mainly made up of translation differences that arise as a result of translating the financial statement items from the functional currency into the presentational currency using the exchange rate at the reporting date, which differs from the rate in effect at the last measurement date of the respective item. Other deficit also includes the cash flow hedge reserve on the balance sheet and is non-distributable.

Retained losses

The balance classified as retained losses includes the profits and losses realised by the Company in previous periods that were not distributed to the shareholders of the Company at the reporting date.

21. Other commitments and contingencies

Contractual commitments for the acquisition of property, plant and equipment

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2019 £ 000	2018 £ 000
Contracted oil and gas exploration	167,624	6,243

Contractual commitments to acquire intangible assets

The contractual commitments in relation to exploration activities are as follows as at the reporting date:

	2019 £ 000	2018 £ 000
Contracted oil and gas exploration	8,500	8,800

Other financial commitments

The total amount of other financial commitments not provided in the financial statements was £493,000 (2018: £486,000), in relation to the acquisition of property, plant and equipment.

22. Related party transactions

During the year, the Company entered into the following arm's length transactions with related parties (who are not members of the Spirit Energy Limited Group but which were related parties since they are fellow subsidiaries of the wider Centrica plc group), and had the following associated balances:

2019	Sale of goods and services (i)	Purchase of goods and services (i)	Other - net interest	Amounts owed from (ii) (see note 15)	Amounts owed to (iii) (see note 17)
	£ 000	£ 000	£ 000	£ 000	£ 000
Centrica plc	3,471	1,042	3,424	-	(524)
GB Gas Holdings Limited	-	-	-	-	(80)
British Gas Trading Limited	54,661	(3,681)	357	-	(319)
Centrica Energy Limited	29,077	-	-	21,849	(542)
Centrica Storage Limited	-	(7,744)	(549)	-	(96)
	87,209	**(10,383)**	**(3,232)**	**21,849**	**(1,561)**

(i) Sale of goods and services includes recharges made to entities outside of the Group and purchase of goods and services includes recharges made by entities outside of the Group.

(ii) Amounts owed from related parties includes £17,855,000 classified as derivative financial instrument assets and £3,994,000 as amounts owed from related parties.

(iii) Amounts owed to related parties include £542,000 classified as derivative financial instrument liabilities and £1,019,000 shown as amounts owed to related parties.

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22. Related party transactions (continued)

2018	Sale of goods and services (i)	Purchase of goods and services (i)	Other - net interest	Amounts owed from (see note 15)	Amounts owed to (see note 17)
	£ 000	£ 000	£ 000	£ 000	£ 000
Centrica plc	-	(18,616)	-	1,621	(438)
GB Gas Holdings Limited	-	389	211	-	(80)
British Gas Trading Limited	110,605	(4,408)	-	2,994	-
Centrica Energy Limited	-	(15,368)	-	-	(76)
Centrica Storage Limited	-	(17,182)	(549)	-	(12,892)
	110,605	**(55,185)**	**(338)**	**4,615**	**(13,486)**

(i) Sale of goods and services includes recharges made to entities outside of the Group and purchase of goods and services includes recharges made by entities outside of the Group.

Joint arrangements
Material joint arrangements owned by the Company that are classified as joint operations and accounted for in accordance with IFRS 11 are detailed below. This list excludes interests in fields where there is no party with overall control since the arrangement does not fulfil the IFRS 11 definition of joint control.

Joint operations - fields/assets

31 December 2019	Location	Percentage holding in ordinary shares and net assets
Grove	Netherlands	85

23. Derivative financial instruments

The Company buys and sells commodities through a mixture of contracts with operators of gas fields. These arrangements also include short-term forward market purchases of gas at fixed and floating prices. An analysis is performed to assess whether these arrangements are financial instruments or not ('own-use contracts').

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company adopts Group internal policies for determining fair value including methodologies used to establish valuation adjustments required for credit risk.

Determination of fair values
The Company's policy for the classification and valuation of financial instruments is disclosed in the accounting policies section of these financial statements. The fair value hierarchy levels are determined in accordance with IFRS 13 and are consistent with those used by its ultimate controlling party being Centrica plc.

Fair value hierarchy
Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities.
- Level 2: Fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data.
- Level 3: Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

23. Derivative financial instruments (continued)

Financial instruments carried at fair value

		Fair value hierarchy		
	Fair value and carrying value	Level 1	Level 2	Level 3
31 December 2019	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Derivative financial assets - in hedge accounting relationships				
Energy derivatives	20,686	-	20,686	-
Foreign exchange derivatives	4,919	-	4,919	-
Total financial assets at fair value through profit or loss	25,605	-	25,605	-
Derivative financial liabilities - in hedge accounting relationships				
Energy derivatives	(3,371)	-	(3,371)	-
Foreign exchange derivatives	(764)		(764)	
Total financial liabilities at fair value through profit or loss	(4,135)	-	(4,135)	-
Total financial instruments at fair value through profit or loss	21,470	-	21,470	-

Financial instruments carried at fair value

		Fair value hierarchy		
	Fair value and carrying value	Level 1	Level 2	Level 3
31 December 2018	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Derivative financial assets - in hedge accounting relationships				
Energy derivatives	17,500	-	17,500	-
Foreign exchange derivatives	239	-	239	-
Total financial assets at fair value through profit or loss	17,739	-	17,739	-
Derivative financial liabilities - in hedge accounting relationships				
Energy derivatives	(8,540)	-	(8,540)	-
Foreign exchange derivatives	(4,973)		(4,973)	
Total financial liabilities at fair value through profit or loss	(13,513)	-	(13,513)	-
Total financial instruments at fair value through profit or loss	4,226	-	4,226	-

		2019		2018
Total derivative financial instruments	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Included within:	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Derivative financial instruments - current	20,179	3,484	11,937	11,683
Derivative financial instruments – non-current	5,426	651	5,802	1,830
	25,605	4,135	17,739	13,513

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

23. Derivative financial instruments (continued)

Methods and assumptions

There were no material transfers during the financial year between level 1 and 2. There were no Level 1 trades during the year and at the end of the year.

Transfers between fair value hierarchy levels are based on the values of the relevant assets and liabilities at the beginning of the reporting period.

The Company has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in marking the measurements. The fair value hierarchy has the following levels:
- quoted prices in active markets for the same instrument (i.e. without modification or repackaging) (Level 1); and
- quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2).

Assessing the significance of a particular input requires judgement. For the purposes of the fair value hierarchy, the Directors have determined Level 2 as the appropriate hierarchy level for all valuations generated from the Company's trading system given that all financial assets and financial liabilities measured and held at fair value mature within the active period.

Valuation techniques used to derive Level 2 fair value and valuation process

Level 2 foreign exchange derivatives comprise forward foreign exchange contracts which are fair valued using forward exchange rates that are quoted in an active market.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2019 was 1% per annum (2018: 1% per annum).

24. Immediate and ultimate parent undertaking

The immediate parent undertaking of the Company is Spirit Energy Limited, a company registered in England and Wales.

Spirit Energy Limited is the parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member. Spirit Energy Limited, which has its registered office at 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG, is registered in England and Wales. Copies of Spirit Energy Limited's financial statements can be obtained from the Register of Companies for England and Wales, Companies House, Crown Way, Cardiff, CF14 3UZ.

The Company's ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which Group accounts are prepared is Centrica plc. Centrica plc has its registered office at Millstream, Maidenhead Road, Windsor, England, SL4 5GD and is registered in England and Wales. Centrica plc's financial statements can be obtained at www.centrica.com.

25. Non-adjusting events after the balance sheet date

Subsequent to the year end, global oil prices have fallen by approximately 50%. This is partly due to the global outbreak of the COVID-19 virus and partly due to Saudi Arabia' decision to increase production. Although it is not possible to reliably estimate the length or severity of the developments, and hence their financial impact, should gas and oil prices remain, at or below, the current prevailing levels for an extended period of time, there could be a significant adverse impact on the Company's financial results for future periods.

In response to the impact of declining commodity prices, Spirit Energy Limited, the immediate parent company, has implemented a program to significantly reduce operating costs, capital expenditure and decommissioning spend in order to remain within the Financial Framework set out in the Shareholder Agreements.

As part of an impairment review completed at 30 June 2020 further impairments of the development and production assets have been recognised totalling £10,477,000. The impairment is predominantly due to the reduction in near-term prices and long-term price forecasts. The fall was exacerbated by the reduction in demand for commodities experienced as a result of the COVID-19 pandemic. This impairment is however offset by a tax credit arising on the impairment charges of £4,191,000.