Registered number: 02855151

SPIRIT ENERGY RESOURCES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

COMPANY INFORMATION

Directors	G M Harrison N J MacLeod N J McCulloch D G Jones
Company secretary	N MacLeod
Registered number	02855151
Registered office	1st Floor 20 Kingston Road Staines-Upon-Thames United Kingdom TW18 4LG
Independent auditor	Deloitte LLP Union Plaza 1 Union Wynd Aberdeen AB10 1SL

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their Strategic Report for Spirit Energy Resources Limited (the 'Company') for the year ended 31 December 2020.

Principal activities

The principal activities of the Company are the production of gas in the UK and Dutch North Sea through its interests in gas assets.

Business review

During the year ended 31 December 2020, oil and liquids production averaged 9,602 barrels per day (net) and gas production averaged 38.5 million cubic feet per day (net). This compares with average oil and liquids production of 9,841 barrels per day (net) and average gas production of 51.0 million cubic feet per day (net) during the year ended 31 December 2019.

During the year, the Company recognised an exceptional credit of £4,516,000 (2019: £15,207,000) on the revision of the decommissioning provision of fully-impaired fields. Due to changing price assumptions, the Company incurred net impairment losses of £164,972,000 on the various fields (2019: £10,554,000).

Financial position

The financial position of the Company is presented in the Balance Sheet on page 13. Total deficit at 31 December 2020 was £18,420,000 (2019: equity of £83,715,000).

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') and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, are disclosed on page 15 of the Group's Annual Report and financial statements for the year ended 31 December 2020, which does not form part of this report and are available at the address detailed in note 26 of these financial statements.

Exit from the European Union

The UK left the EU on 31 January 2020. Under the transition period until 11pm on 31 December 2020 the UK continued to adhere to EU law, and therefore, existing arrangements largely continued to apply for the Company throughout the financial year. A trade and cooperation agreement was reached by the UK and the EU on 30 December 2020, with effect from 1 January 2021. The impact on the Company has so far been immaterial, with the provisions relating to movement of goods resulting in little disruption to Spirit Energy's supply chain. Withdrawing from the European Union treaties is nevertheless a task of immense complexity with implications beyond agreement on zero quotas and additional tariffs, and the Company is keeping the possible impacts on the business stemming from the new regime under review across areas ranging from impact on the workforce, GDPR and data protection law to new customs practices and carbon emissions trading.

Corporate taxation is not affected by Brexit scenarios, although it is recognised that work is required with Shareholders to define the impacts on shareholder distributions and controlled foreign corporation (CFC) restrictions. Where appropriate Spirit Energy will continue to seek external advice to assist in the understanding and potential mitigation of negative impacts on the business.

Key performance indicators ('KPI's')

The performance of the Company is included in the consolidated results of 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 2020, which does not form part of this report and are available at the address detailed in note 26 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;
- 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

Section 172(1) Statement (continued)

Impact of operations (continued)

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 2020. 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 works 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.

Climate change

The Company's impact on climate change is considered with that of the Group as a whole and is not managed separately. Consideration of the Group's impact on climate change are included on pages 16 to 17 of the Group's Annual Report and financial statements for the year ended 31 December 2020, which does not form part of this report and are available at the address detailed in note 26 of these financial statements.

Energy and carbon reporting

The energy and carbon reporting of the Company is included in the consolidated results of the Group. The Directors of Spirit Energy Limited have disclosed the Group's energy and carbon reporting on pages 16 and 17 of the Group's Annual Report and financial statements for the year ended 31 December 2020, which does not form part of the report and are available at the address detailed in note 26 of these financial statements.

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 2020, which does not form part of this report.

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

This report was approved by the board on 20 August 2021 and signed on its behalf.

DocuSigned by:
Nicola Macleod
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N J MacLeod
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

Results and dividends

The results of the Company are set out on page 11. The loss for the financial year ended 31 December 2020 is £99,954,000 (2019: £15,966,000).

No dividends were paid during the year (2019: £nil). The Directors do not recommend the payment of a final dividend (2019: £nil).

Directors

The Directors who served during the year and up to the date of signing were:

G M Harrison
N J MacLeod
N J McCulloch
D G Jones

Future developments

Future developments are discussed in the Strategic Report on page 3.

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 73 to 76 of the Group's Annual Report and financial statements for the year ended 31 December 2020, 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, 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 24 October 2022.

The Group's principal risks and uncertainties are detailed in the Group's Strategic Report on page 15 and specifically explains the increased challenges the Group faces with COVID-19. 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 persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be 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.

Events after the balance sheet date

Significant events since the balance sheet date are contained in note 27 to the Financial Statements on page 49.

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.

This report was approved by the board on 20 August 2021 and signed on its behalf.

DocuSigned by:
Nicola MacLeod
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N J MacLeod
Director

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

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

Company law requires the Directors to prepare audited financial statements for each financial year. Under that law the Directors have elected to prepare the audited financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the audited 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 audited 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;
- 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 to 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2020 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 27.

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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. 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.

Other information (continued)

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and in-house legal counsel about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included, Companies Act 2006 and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included terms of the field licenses monitored by the Industry Regulator and local health and safety and environmental laws and regulations.

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in respect of estimating the cost of decommissioning oil & gas fields at the end of producing lives, and our specific procedures performed to address it are described below:

- inquired regarding management's decommissioning process, including the oversight and governance of the processes related to decommissioning;
- engaged specialists to test the mechanical accuracy of the decommissioning model, together with producing analytics to direct our areas of audit focus;
- performed tests over inputs to the decommissioning model; and
- assessed the discount rate applied.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC.

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.

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.

Graham Hollis

Graham Hollis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL
20 August 2021

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	*2019* *£000*
Revenue	4	**141,323**	*172,647*
Gain on remeasurement of derivatives	5	**9,789**	*32,658*
Cost of sales	6	**(139,247)**	*(154,386)*
Gross profit		**11,865**	*50,919*
Operating costs	6	**(37,000)**	*(68,937)*
Exceptional items	12	**(160,456)**	*4,653*
Operating loss		**(185,591)**	*(13,365)*
Finance income	9	**327**	*485*
Finance cost	10	**(6,301)**	*(22,176)*
Loss before tax		**(191,565)**	*(35,056)*
Tax credit	11	**91,611**	*19,090*
Loss for the year		**(99,954)**	*(15,966)*

The above results were derived from continuing operations.

The notes on pages 16 to 49 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 £000	2019 £000
Loss for the year	**(99,954)**	*(15,966)*
Items that will be or have been reclassified to the Income Statement:		
Exchange differences on translating foreign operations	**(1,790)**	*(1,350)*
Net (loss)/gain on cash flow hedges	**(137)**	*480*
Taxation on cash flow hedges	**(254)**	*204*
Other comprehensive loss net of taxation	**(2,181)**	*(666)*
Total comprehensive loss for the year	**(102,135)**	*(16,632)*

The notes on pages 16 to 49 form part of these financial statements.

SPIRIT ENERGY RESOURCES LIMITED
REGISTERED NUMBER:02855151

BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note		2020 £000		2019 £000
Non-current assets					
Property, plant and equipment	14		**144,112**		*138,419*
Intangible assets	13		**10,310**		*126,247*
Deferred tax assets	11		**261,865**		*188,866*
Derivative financial instruments	25		**2,687**		*5,426*
			418,974		*458,958*
Current assets					
Inventories	15	**10,630**		*21,246*	
Trade and other receivables	16	**153,537**		*234,972*	
Derivative financial instruments	25	**9,155**		*20,179*	
Cash at bank and in hand	17	**1,107**		*1,417*	
		174,429		*277,814*	
Current liabilities					
Trade and other payables	18	**(38,308)**		*(151,013)*	
Derivative financial instruments	25	**(14,904)**		*(3,484)*	
Provision for other liabilities and charges	19	**(20,214)**		*(8,659)*	
Borrowings	20	**(84)**		*(210)*	
Net current assets			**100,919**		*114,448*
Total assets less current liabilities			**519,893**		*573,406*
Non-current liabilities					
Derivative financial instruments	25	**(12,397)**		*(651)*	
Provisions for other liabilities and charges	19	**(525,916)**		*(488,919)*	
Borrowings	20	**-**		*(121)*	
			(538,313)		*(489,691)*
Net (liabilities)/assets			**(18,420)**		*83,715*
Capital and reserves					
Called up share capital	21		**775,000**		*775,000*
Foreign exchange deficit	22		**(31,313)**		*(29,523)*
Other reserves	22		**612**		*1,003*
Retained losses	22		**(762,719)**		*(662,765)*
Total (deficit)/equity			**(18,420)**		*83,715*

BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2020

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 20 August 2021.

DocuSigned by:
Nicola Macleod
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N J MacLeod
Director

The notes on pages 16 to 49 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Called up share capital	Foreign exchange deficit	Other reserves	Retained losses	Total equity /(deficit)
	£000	£000	£000	£000	£000
At 1 January 2019	**120,000**	**(28,173)**	**319**	**(646,799)**	**(554,653)**
Loss for the year	-	-	-	(15,966)	(15,966)
Currency translation differences	-	(1,350)	-	-	(1,350)
Net gain on cash flow hedges	-	-	684	-	684
Other comprehensive income/(loss) for the year	-	(1,350)	684	-	(666)
Total comprehensive income/(loss)for the year	-	(1,350)	684	(15,966)	(16,632)
Shares issued during the year	655,000	-	-	-	655,000
At 1 January 2020	**775,000**	**(29,523)**	**1,003**	**(662,765)**	**83,715**
Loss for the year	-	-	-	(99,954)	(99,954)
Currency translation differences	-	(1,790)	-	-	(1,790)
Net loss on cash flow hedges	-	-	(391)	-	(391)
Other comprehensive loss for the year	-	(1,790)	(391)	-	(2,181)
Total comprehensive loss for the year	-	(1,790)	(391)	(99,954)	(102,135)
At 31 December 2020	**775,000**	**(31,313)**	**612**	**(762,719)**	**(18,420)**

The notes on pages 16 to 49 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 3.

2. Accounting policies

2.1 Basis of preparation of financial statements

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 IFRS's'), 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.

2.2 Changes in Accounting Policies

From 1 January 2020, 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:

- Amendment to IFRS 3: 'Business Combinations';
- Amendment to IAS 1: 'Presentation of financial statements' and IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
- Conceptual framework for Financial Reporting 2018.

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 requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- 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.

2. Accounting policies (continued)

2.3 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.

2.4 Going concern

The financial statements have been prepared on a going concern basis as Spirit Energy Limited, the immediate parent company, 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 24 October 2022.

The Group's principal risks and uncertainties are detailed in the Group's Strategic Report on page 15 and specifically explains the increased challenges the Group faces with COVID-19. 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.

2.5 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.

2.6 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.

2.7 Finance income

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

2.8 Finance costs

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

2. Accounting policies (continued)

2.9 Cost of sales

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

2.10 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 balance sheet 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.

2.11 Leases

Under IFRS 16, an arrangement is, or contains, a lease where the contract conveys the right to use an asset for a period of time in exchange for consideration. Lessees must recognise ROU assets to represent its rights to use the underlying assets and lease liabilities to represent its obligation to make lease payments. However, exemptions are available for low-value or short-term leases to be recognised as an expense.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the Income Statement within financing costs.

Leasing activities for Spirit Energy Resources Limited relates to the rental of drilling rigs and support vessels.

Lease liabilities

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

Lease payments included in the initial measurement of the lease liability comprise of 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.

2. Accounting policies (continued)

2.11 Leases (continued)

Lease liabilities (continued)

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

The Company recognises the lease payments associated with short-term and low-value leases on a straight-line basis over the lease term.

Extensions and terminations – Leases

If a lease is terminated before its expected lease term (e.g. the lessee exercises a break clause that was previously not assessed to be reasonably certain to be exercised or the lessee defaults so that the lessor repossesses the underlying asset), the Company will derecognise the carrying amount of the net investment in the lease. The underlying asset is initially measured at the carrying amount of the net investment in the lease immediately before its derecognition.

If a lease modification occurs, the Company will determine whether the modification should be accounted for as a separate contract or as a change in the accounting for the existing lease.

If the modification grants the lessee the right to use additional property, plant and equipment not contemplated in the original contract and is priced in a manner consistent with the stand-alone price of the additional right-of-use, the modified lease will be accounted for as a separate contract.

If the modification results in the lease being classified as an operating lease, the modification is accounted as if it were a termination of the existing lease and the creation of a new lease that commences on the effective date of the modification. The Company will derecognise the net investment in the lease receivable and recognise the underlying asset at the carrying value of the net investment in the lease receivable that existed immediately prior to the date of modification.

If an extension or termination option is 'reasonably certain' to be exercised, the termination period or extended period will be included or excluded from the lease term when calculating the lease liability.

The Company will reassess the 'reasonably certain' criteria upon the occurrence of significant event. An event is considered significant if it affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term.

Joint arrangements – Leases

The Company holds an interest in a joint arrangement. The Company has applied judgement in identifying the customer in lease arrangements used by a joint arrangement. If the leased asset is dedicated to a specific joint arrangement and its usage is directed by the joint arrangement, the joint arrangement is deemed the customer. In circumstances where the Company has signed the lease agreement on behalf of the joint arrangement and has primary responsibility for the payments to the lessor, the Company will recognise 100% of the lease liability and ROU asset on its Balance Sheet. In circumstances where the partner is obliged to reimburse the Company for its share of the lease payments, a sub-lease receivable will be recognised with a corresponding adjustment made to the ROU asset.

2. Accounting policies (continued)

2.11 Leases (continued)

Joint arrangement - Leases (continued)

If the leased asset is not dedicated to a specific joint arrangement or its usage is not directed by the joint arrangement, the signatory of the lease agreement is deemed to be customer. If this is the Company, the lease liability and ROU asset are recognised in full. If it is the partner, no lease liability or ROU asset is recognised.

Right-of-use (ROU) assets – Leases

The Company recognises a ROU asset and lease liability at the date of commencement of a lease. The ROU asset is initially measured at cost. The cost is made up of the initial lease liability adjusted for any lease payments made at commencement or prepaid, estimated costs to dismantle and remove the underlying asset and estimated costs to restore the underlying asset or site on which it is located. In addition, any lease incentives received are deducted from the cost.

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

2.12 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 balance sheet 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.

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.

2. Accounting policies (continued)

2.13 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 difference 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 differences 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.

2.14 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 ('PP&E'). 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 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.

2. Accounting policies (continued)

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

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.

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.

Assets held as right-of-use assets are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

2.15 *Depreciation* of PP&E

Depreciation is charged as follows:

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

Assets held as right-for-use assets 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.

2.16 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)

2. Accounting policies (continued)

2.16 Interests in joint arrangements and associates (continued)

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 and/or wind farms 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'.

2.17 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.

2.18 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 balance sheet date or earlier if events or changes in circumstances indicate an impairment may exist. If any such indication exists, then the asset's recoverable amount is estimated.

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.

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.

2. Accounting policies (continued)

2.18 Impairment (continued)

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.

2.19 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.

2.20 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.21 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. 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.

2. Accounting policies (continued)

2.22 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.

(a) 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.

Certain purchase and sales contracts for the physical delivery of gas and oil are within the scope of IFRS 9 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IFRS 9 and are recognised in the Company's Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Income Statement for the year.

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 Annual Report and Accounts 2019 of the intermediate controlling party being Spirit Energy Limited, 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.

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.

2. Accounting policies (continued)

2.22 Financial instruments (continued)

(b) 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.

2.23 Trade and other receivables

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

Trade 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.

2. Accounting policies (continued)

2.24 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 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.

2.25 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.

2.26 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.

3. Judgements in applying accounting policies 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 12). No other key judgements have been made by the Directors in applying the Company's accounting policies.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet 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 19)

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed annually or earlier if events or changes in circumstance indicate an impairment may exist 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 2038 (2019: 2049).

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 2020 is 0% (2019: 1.2%). A 1% variation in this discount rate would change the decommissioning liabilities by approximately £52,908,000 (2019: £44,530,000).

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 93.

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.

3. Judgements in applying accounting policies (continued)

(b) Key sources of estimation uncertainty (continued)

Determination of fair values - energy derivatives (note 25)

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 estimates and the assumptions underpinning these estimates 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 balance sheet date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or CGU's are recoverable. The key assets that are subjected to impairment tests are development and production assets the carrying value of which is £144,112,000 (2019: £138,419,000) as at 31 December 2020 (See note 14). The exploration and evaluation assets are also subjected to impairment tests the carrying value of which is £10,310,000 (2019: £126,247,000) as at 31 December 2020 (See note 13). As part of an impairment review completed at 30 June 2021 a reversal of impairments of the development and production assets has been recognised totaling £11,000,000. The reversal of impairment is predominantly due to the improvement in near-term price forecasts. The reversal of impairment is however, offset by a tax charge arising on the impairment reversal of £4,000,000.

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 reversal of impairment of £57,035,000. A decrease of 10% causes an increase in impairment of £38,011,000. Changes in the price generate different production profiles and, in some cases, the date that an asset ceases production.

4. Revenue

An analysis of revenue by class of business is as follows:

	2020	*2019*
	£000	*£000*
Sales of gas and liquids from production	**141,323**	*172,647*

Analysis of revenue by country of destination:

	2020	*2019*
	£000	*£000*
United Kingdom	**140,475**	*171,952*
The Netherlands	**848**	*695*
	141,323	*172,647*

5. Gain on remeasurement of derivatives

	2020	*2019*
	£000	*£000*
Remeasurement of foreign exchange derivatives	**1,532**	*7,771*
Remeasurement of energy derivatives	**8,257**	*24,887*
Gain on the remeasurement of derivatives	**9,789**	*32,658*

6. Analysis of costs/(income) by nature

Year ended 31 December	**2020** Cost of sales £000	Operating costs/ (income) £000	Total costs/ (income) £000	*2019* Cost of sales £000	Operating costs/ (income) £000	Total costs/ (income) £000
Transportation, distribution and metering costs	**16,935**	**-**	**16,935**	*20,218*	*-*	*20,218*
Inventories written down/(back) (note 15)	**-**	**535**	**535**	*-*	*(419)*	*(419)*
Depreciation (note 14)	**38,374**	**246**	**38,620**	*54,339*	*54,966*	*109,305*
Foreign exchange (gains)/losses	**-**	**(1,027)**	**(1,027)**	*-*	*1,184*	*1,184*
Other operating costs	**83,938**	**37,246**	**121,184**	*79,829*	*13,206*	*93,035*
Total operating costs by nature	**139,247**	**37,000**	**176,247**	*154,386*	*68,937*	*223,323*

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

7. Directors' remuneration

The Directors' remuneration for the year was as follows:

	2020 £000	*2019* £000
Directors' emoluments	**692**	*695*

Remuneration of the highest paid Director:

	2020 £000	*2019* £000
Director emoluments	**231**	*188*

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.

The number of Directors who received post-employment benefits and share incentives was nil (2019: nil).

8. Auditor's remuneration

	2020 £000	*2019 £000*
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**31**	*30*

9. Finance income

	2020 £000	*2019 £000*
Net foreign exchange gains on financing transactions	**-**	*186*
Other interest income	**327**	*299*
	327	*485*

10. Finance cost

	2020 £000	*2019 £000*
Unwind of discount on provisions (note 19)	**4,969**	*6,567*
Net foreign exchange losses on financing transactions	**254**	*1,647*
Interest on amounts owed to fellow Group undertakings	**974**	*13,953*
Other interest cost	**6**	*-*
Net changes in fair value of foreign exchange contracts	**94**	*-*
Interest expense on obligations under finance leases	**4**	*9*
	6,301	*22,176*

11. Taxation

	2020 £000	*2019 £000*
Current tax		
Current tax on losses for the year	**(11,041)**	*(4,200)*
Adjustments in respect of previous periods	**(5,565)**	*(156)*
UK petroleum revenue tax	**(2,006)**	*(940)*
Total current tax	**(18,612)**	*(5,296)*
Deferred tax		
Origination and reversal of timing differences	**(65,239)**	*(17,551)*
UK petroleum revenue tax	**(11,384)**	*4,722*
Adjustments in respect of prior years - UK	**3,624**	*(965)*
Total deferred tax	**(72,999)**	*(13,794)*
Tax credit	**(91,611)**	*(19,090)*

The main rate of corporation tax for the year to 31 December 2020 was 19% (2019: 19%). The deferred tax assets and liabilities outside of upstream oil and gas activities 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% (2019: 30%) plus a supplementary charge of 10% (2019: 10%) to give an overall rate of 40% (2019: 40%). In addition, certain upstream assets in the UK attract petroleum revenue tax ('PRT') at 0% (2019: 0%), giving an overall effective rate of 40% (2019: 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.

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2019: lower than) the standard rate of corporation tax in the UK of 40% (2019: 40%). The differences are explained below:

	2020 **£000**	*2019* *£000*
Loss on ordinary activities before tax	**(191,565)**	*(35,056)*
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 40% (2019: 40%)	**(76,626)**	*(14,022)*
Effects of:		
Additional relief on abandonment expenditure	**(171)**	*(9,357)*
Increase from effect of different UK tax rates on some earnings	**282**	*3,043*
Adjustments in respect of prior years	**(1,941)**	*(1,121)*
Non ring fence losses value at nil	**-**	*517*
CT impact of petroleum revenue tax	**5,470**	*(1,513)*
RFES claimed	**(1,856)**	*(2,016)*
UK petroleum revenue tax	**(2,006)**	*(940)*
Deferred petroleum revenue tax	**(11,384)**	*4,722*
Net expenses non-deductible for tax purposes	**411**	*1,597*
Release of uncertain tax position	**(3,790)**	*-*
Total tax credit for the year	**(91,611)**	*(19,090)*

Factors that may affect future tax charges

On 3 March 2021, the UK government announced an intention to increase the UK corporation tax rate to 25% with effect from 1 April 2023. If enacted this will impact the value of UK deferred tax balances, and the tax charged on UK profits generated in 2023 and subsequently. The impact of these proposed changes is yet to be determined.

11. Taxation (continued)

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)	Other timing differences including losses carried forward	Other provisions	Total
	£000	£000	£000	£000
1 January 2019	(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
(Charged)/credited to the Income Statement	53,903	19,701	(605)	72,999
31 December 2020	(12,628)	51,599	222,894	261,865

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 £21,638,000 (2019: £19,316,000) in respect of investment allowances has not been recognised as at 31 December 2020 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 £261,865,000 (2019: £188,866,000) 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 £nil (2019: £nil) in respect of non ring-fence losses has not been recognised as at 31 December 2020 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.

12. Exceptional items

The following exceptional items were recognised in arriving at operating loss for the year:

	2020 **£000**	*2019* *£000*
Impairment charges	**170,362**	*10,554*
Impairment reversals	**(5,390)**	-
Decommissioning provision revision	**(4,516)**	*(15,207)*
	160,456	*(4,653)*

During the year, the Company:
- incurred an impairment charge of £170,362,000 on various fields as a result of a reassessment of the development based on future prices.
- incurred a reversal of impairment of £5,390,000 on the Grove field as a result of a reassessment of the development based on future prices.
- recognised an exceptional credit of £4,516,000 on the revision of the decommissioning provision of fully-impaired fields.

During the prior 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.

The cashflows are based on a base gas price of 42 pence per therm, a 5-year average price of 51p per therm, a 10-year average price of 60p per therm, an inflation rate of 2% and exchange rate of £1 to €1.16. A 10% increase in the price assumption would result in a reversal of impairment of £57,035,000 A 10% reduction in the price assumption would result in a further impairment of £38,011,000.

13. Intangible assets

	Exploration & evaluation assets £000
Cost	
At 1 January 2020	183,113
Additions	11,661
Transfer between classes (note 14)	(4,124)
At 31 December 2020	190,650
Impairment	
At 1 January 2020	56,866
Impairment (note 12)	123,474
At 31 December 2020	180,340
Net book value	
At 31 December 2020	10,310
At 31 December 2019	126,247

Impairment

During the current year, the Company recognised impairment charges in relation to the Warwick and Lincoln assets, the Greater Warwick Area. The decision to recognise the impairment was decided by the board of Spirit Energy Limited based on the required capital spend to develop the Greater Warwick Area and also the uncertainty around future exploration in the area. This resulted in the decision that future development of the Greater Warwick Area would not be undertaken and therefore the exploration and evaluation asset should be impaired to nil.

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

14. Property, plant and equipment

	Development & production assets £000
Cost	
At 1 January 2020 (refer to note below)	2,833,262
Additions	33,245
Disposals	(687)
Transfer between classes (note 13)	4,124
Revision to decommissioning assets (note 19)	52,668
Retranslation of foreign currency balances	24,675
At 31 December 2020	2,947,287
Accumulated depreciation and impairment	
At 1 January 2020 (refer to note below)	2,694,843
Charge for the year (note 6)	38,620
Disposals	(342)
Impairment (note 12)	45,566
Retranslation of foreign currency balances	24,488
At 31 December 2020	2,803,175
Net book value	
At 31 December 2020	144,112
At 31 December 2019	138,419

Impairment

During the year, the Company incurred an impairment charge of £45,566,000 on the Brae and Alba fields due to a revised outlook based on prices. Further details on the impairment charge are included in note 12. As at 30 June 2021 a reversal of impairment has been recorded and further details are included in note 27.

In the prior year, the Company incurred an impairment charge of £10,554,000 on the Grove field due to a revised outlook based on prices.

The recoverable amounts of the assets are categorised in Level 3 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 10.0% (2019: 9.0%) to determine fair value less costs of disposal.

14. Property, plant and equipment (continued)

Impairment (continued)

There were no impairment indicators identified as at 31 December 2020 or 31 December 2019 in relation to the remaining property, plant and equipment assets. Similarly, there were no other 'triggering events' justifying a reversal of impairment losses previously recognised.

Adjustment
The amounts above include an adjustment to net down the gross cost and accumulated depreciation and impairment pertaining to an asset disposed of in an earlier period. There is no impact of the said adjustment on the net book value disclosed here.

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 2020	577
Disposals	(342)
At 31 December 2020	235
Depreciation	
At 1 January 2020	249
Charge for the year (note 6)	246
Disposals	(342)
At 31 December 2020	153
Net book value	
At 31 December 2020	82
At 31 December 2019	328

15. Inventories

	2020 £000	*2019 £000*
Operational spares and consumables	**10,630**	*11,180*
Oil in storage and transportation	**-**	*10,066*
	10,630	*21,246*

Operational spares and consumables recognised as an expense in the year and included in cost of sales amounted to £nil (2019: £nil). The write-down of inventories to net realisable value amounted to £535,000 (2019: £59,000) and is included in operating costs and relate to inventory for the Seven Seas and Andromeda assets following asset reviews.

The reversal of write-downs amounted to £nil (2019: £478,000).

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

16. Trade and other receivables

	2020 £000	*2019 £000*
Trade receivables	**80**	*4,468*
Amounts owed by Group undertakings	**123,981**	*191,881*
Amounts owed by from other related parties (note 24)	**2,256**	*3,994*
Other receivables	**21,048**	*22,555*
Prepayments and accrued income	**6,172**	*3,979*
Tax recoverable	**-**	*8,095*
	153,537	*234,972*

Included within the net amounts owed by Group undertakings disclosed above is £112,618,000 (2019: £188,589,000 owed to group undertakings) that was charged interest at the monthly rates ranging between 0.04% and 0.70% (2019: 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.

17. Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	**1,107**	*1,417*

18. Trade and other payables

	2020 £000	2019 £000
Trade creditors	**3,302**	*9,251*
Amounts owed to Group undertakings	**3,574**	*77,690*
Amounts owed to other related parties (note 24)	**1,734**	*1,019*
Other creditors	**23,607**	*53,829*
Accruals and deferred income	**6,091**	*9,224*
	38,308	*151,013*

The amounts owed to fellow Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. The amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

19. Provisions for other liabilities and charges

	Decommissioning £000	Other provisions £000	Total £000
At 1 January 2020	497,565	13	497,578
Charge to the Income Statement	4,425	-	4,425
Unused provision reversed to the Income Statement	(9,457)	(11)	(9,468)
Revision to provision on existing assets (note 14)	52,668	-	52,668
Provisions used	(6,368)	-	(6,368)
Retranslation of foreign currency balance	2,326	-	2,326
Increase due to discount unwinding (note 10)	4,969	-	4,969
At 31 December 2020	546,128	2	546,130
Current liabilities	20,214	-	20,214
Non-current liabilities	525,914	2	525,916

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 0% (2019: 1.2%).

The timing of the decommissioning payments are dependent on the lives of a number of fields but are anticipated to occur between 2021 and 2038 (2019: 2020 and 2049).

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.

20. Borrowings

	2020	*2019*
	£000	*£000*
Non-current bank overdrafts, loans and borrowings		
Lease liabilities	**-**	*121*

	2020	*2019*
	£000	*£000*
Current bank overdrafts, loans and borrowings		
Lease liabilities	**84**	*210*

The maturity analysis for lease liabilities is as follows:

	2020	*2019*
	£000	*£000*
Within 1 year	**84**	*210*
1-2 years	**-**	*121*
	84	*331*

21. Share capital

	2020	*2019*
	£000	*£000*
Allotted, called up and fully paid		
775,000,000 (2019: 775,000,000) Ordinary shares of £1.00 each	**775,000**	*775,000*

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.

22. Reserves

Foreign exchange deficit

The other equity 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 and is non-distributable.

Other reserves

Other reserves comprise the cash flow hedging reserve comprising of 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 reserve 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.

23. 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:

	2020	*2019*
	£000	*£000*
Contracted oil and gas exploration	**16,470**	*167,624*

Contractual commitments to acquire intangible assets

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

	2020	*2019*
	£000	*£000*
Contracted oil and gas exploration	**32,442**	*8,500*

Other financial commitments

The total amount of other financial commitments not provided in the financial statements was £6,053,000 (2019: £493,000), in relation to the acquisition of property, plant and equipment.

24. 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 Group but which were related parties since they are fellow subsidiaries of the wider Centrica plc group), and had the following associated balances:

2020	**Sale of goods and services (i)**	**Purchase of goods and services (i)**	**Other - net interest**	**Amounts owed from (note 16)**	**Amounts owed to (ii)**
	£000	**£000**	**£000**	**£000**	**£000**
Centrica plc	3,471	1,042	3,424	-	(524)
British Gas Trading Limited	54,661	(3,681)	357	-	(784)
GB Gas Holdings Limited	-	-	-	-	(80)
Centrica Storage Limited	-	(7,744)	(549)	-	(346)
Centrica Energy Limited	29,077	-	-	2,256	(22,828)
	87,209	(10,383)	3,232	2,256	(24,562)

(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 to related parties include £22,828,000 (note 25) classified as derivative financial instrument liabilities and £1,734,000 (note 18) shown as amounts owed to related parties.

2019	Sale of goods and services (i)	Purchase of goods and services (i)	Other - net interest	Amounts owed from (ii)	Amounts owed to (iii)
	£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 Storage Limited	-	*(7,744)*	*(549)*	-	*(96)*
Centrica Energy Limited	*29,077*	-	-	*21,849*	*(542)*
	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 (note 25) classified as derivative financial instrument assets and £3.994,000 (note 16) as amounts owed from related parties.
(iii) Amounts owed to related parties include £542,000 (note 25) classified as derivative financial instrument liabilities and £1,019,000 (note 18) shown as related parties.

24. Related-party transactions (continued)

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.

As at 31 December 2020 the Company has an 85% in ordinary shares and net assets of the Grove field based in The Netherlands.

25. 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 'Fair value measurement' and are consistent with those used by Centrica plc, the Company's ultimate controlling party.

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.

25. 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 2020	**£000**	**£000**	**£000**	**£000**
Derivative financial assets - in hedge accounting relationships				
Energy derivatives	4,240	-	4,240	-
Foreign exchange derivatives	7,602	-	7,602	-
Total financial assets at fair value	11,842	-	11,842	-
Derivative financial liabilities - in hedge accounting relationships				
Energy derivatives	(27,067)	-	(27,067)	-
Foreign exchange derivatives	(234)	-	(234)	-
Total financial liabilities at fair value	(27,301)	-	(27,301)	-
Total financial instruments at fair value	(15,459)	-	(15,459)	-

Financial instruments 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	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	(4,135)	-	(4,135)	-
Total financial instruments at fair value	21,470	-	21,470	-

25. Derivative financial instruments (continued)

		2020		*2019*
Total derivative financial instruments	**Assets**	**Liabilities**	*Assets*	*Liabilities*
Included within:	**£000**	**£000**	*£000*	*£000*
Derivative financial instruments - current	9,155	14,904	*20,179*	*3,484*
Derivative financial instruments - non-current	2,687	12,397	*5,426*	*651*
	11,842	27,301	*25,605*	*4,135*

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 2020 was 1% per annum (2019: 1% per annum).

26. 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.

27. Non-adjusting events after the balance sheet date

After the balance sheet date, a default event has occurred in relation to one of the Company's joint operating partners leading to an increase in the Company's equity stake in the field in line with its proportionate share of the defaulting interest. Discussions between the partners are still in progress however the Company expects that the impact of the proceedings on the Company's results would give rise to an increase in the decommissioning obligations of £50m, before associated tax benefit.

As part of an impairment review completed at 30 June 2021 a reversal of impairments of the development and production assets has been recognised totaling £11,000,000. The reversal of impairment is predominantly due to the improvement in near-term price forecasts. The reversal of impairment is however, offset by a tax charge arising on the impairment reversal of £4,000,000.