Registration number: 04181384

Spirit Resources (Armada) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

Spirit Resources (Armada) Limited

Contents

Spirit Resources (Armada) Limited

Strategic Report for the Year Ended 31 December 2018

The Directors present their Strategic Report for Spirit Resources (Armada) Limited ('the Company') for the year ended 31 December 2018.

Principal activities
The principal activities of the Company are the production of gas in the UK North Sea through the Armada field. Following the sale of the Armada field the Company continues to seek opportunities in the UK and Dutch North Sea.

Review of the business
During the year, the Company recognised an exceptional credit of £406,000 (2017: £6,455,000) on the revision of the decommissioning provision of the fully impaired Armada field.

The Group entered into negotiations during the year to dispose of its interest in the Armada area assets. A sale and purchase agreement was entered into on 20 March 2018, and the sale completed on 1 June 2018. As a result of the sale of the assets a loss on disposal of £461,000 was incurred and the Company has retained a decommissioning liability in relation to the assets.

During the prior year, the Company recognised a profit from discontinued operations of £748,000 in relation to the Company electing not to enter the second phase of Block 2ab Production Sharing Contract.

The Company continues to seek opportunities in oil and gas interests in the UK and Dutch North Sea.

Financial position
The financial position of the Company is presented in the Balance Sheet on page 11. Total equity at 31 December 2018 was £37,048,000 (2017: £37,379,000).

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Group and are not managed separately. The principal risks and uncertainties of the Group are disclosed on pages 5 and 6 of the Group's consolidated financial statements for the year ended 31 December 2018, which does not form part of this report.

Exit from the European Union
The UK referendum vote in June 2016 to leave the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties on the Company is limited in the short term. Many details of the implementation process continue to remain unclear. Extricating from the European Union treaties is a task of immense complexity, but the Company has prepared itself to manage the possible impacts on its business. There are also potential tax consequences of the withdrawal and these will continue to be reassessed at each reporting date to ensure the tax provisions reflect the most likely outcome following the withdrawal.

Key performance indicators ('KPIs')
The performance of the Company is included in the consolidated results of Spirit Energy Limited (the 'Group'). The Directors of Spirit Energy Limited manage the Group on a divisional basis and use a number of KPIs to monitor progress against the Group's strategy. For this reason, the Company's Directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance and position of the business of the Company. A discussion of the Group KPIs is on pages 3 and 4 of the Group's consolidated financial statements for the year ended 31 December 2018, which does not form part of this report and are available at the address detailed in note 19 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 4 of the Group's consolidated financial statements for the year ended 31 December 2018, 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 North Sea through the Armada field.

Approved by the Board on 19 September 2019 and signed on its behalf by:

....

NJ McCulloch

Director

Company registered in England and Wales, No. 04181384

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

Spirit Resources (Armada) Limited

Directors' Report for the Year Ended 31 December 2018

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

Directors of the Company

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

FD Weir (resigned 31 May 2018)
PMR Tanner (resigned 31 May 2018)
GM Harrison
R Martinsen (appointed 1 June 2018, resigned 31 December 2018)
NJ Macleod (appointed 11 September 2018)
NJ McCulloch (appointed 1 January 2019)

Results and dividends

The results of the Company are set out on page 9. The profit for the financial year ended 31 December 2018 is £453,000 (2017: £6,131,000).

No dividends were paid during the year (2017: £nil) and the Directors do not recommend the payment of a final dividend (2017: £nil).

Future developments

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

Going concern

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

Directors' insurance and indemnities

Spirit Energy Limited, the intermediate 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 S234 of the Companies Act 2006, were in force for the benefit of the Directors of the Company during the year and up to and including the date of the Directors' report.

Disclosure of information to auditor

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

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

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Board Meeting.

Approved by the Board on 19 September 2019 and signed on its behalf by:

....

NJ McCulloch
Director
Company registered in England and Wales, No. 04181384

Registered office:

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

Spirit Resources (Armada) Limited

Statement of Directors' Responsibilities for the Year Ended 31 December 2018

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent Auditor's Report to the Members of Spirit Resources (Armada) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Spirit Resources (Armada) Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit 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 19.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Spirit Resources (Armada) Limited

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Spirit Resources (Armada) Limited

Use of our report

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

G. Hollis ....

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

Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

19 September 2019

Spirit Resources (Armada) Limited

Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	5	1,279	3,273
Cost of sales	6	(1,280)	(1,975)
Gross (loss)/profit		(1)	1,298
Operating income/(costs)	6	351	(175)
Exceptional items - decommissioning provision revision	7	406	6,455
Operating profit		756	7,578
Finance income	9	651	859
Finance cost	9	(119)	(676)
		532	183
Profit before taxation		1,288	7,761
Tax expense	11	(364)	(2,378)
Profit for the year from continuing operations		924	5,383
(Loss)/profit for the year from discontinued operations (net of taxation)	4	(471)	748
Profit for the year		453	6,131

The notes on pages 13 to 28 form an integral part of these financial statements.

Spirit Resources (Armada) Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018 £ 000 Continuing operations	2018 £ 000 Discontinued operations	2017 £ 000 Continuing operations	2017 £ 000 Discontinued operations
Profit for the year	924	(471)	5,383	748
Other comprehensive (loss)/income				
Items that will be or have been reclassified to the Income Statement				
Exchange differences on translating foreign operations	(784)	-	683	-
Exchange differences recycled to Company Income Statement on disposal	-	-	-	(1,140)
Other comprehensive income/(loss) net of taxation	(784)	-	683	(1,140)
Total comprehensive income/(loss) for the year	140	(471)	6,066	(392)

The notes on pages 13 to 28 form an integral part of these financial statements.

Spirit Resources (Armada) Limited

Balance Sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Non-current assets			
Deferred tax assets	11	4,782	4,927
		4,782	4,927
Current assets			
Trade and other receivables	13	45,454	45,835
Inventories	14	-	18
Cash and cash equivalents		116	75
		45,570	45,928
Total assets		50,352	50,855
Current liabilities			
Trade and other payables	15	(3,560)	(3,443)
Current tax liabilities		(180)	(180)
Provisions for other liabilities and charges	16	-	(2,789)
		(3,740)	(6,412)
Net current assets		41,830	39,516
Total assets less current liabilities		46,612	44,443
Non-current liabilities			
Provisions for other liabilities and charges	16	(9,564)	(7,064)
		(9,564)	(7,064)
Total liabilities		(13,304)	(13,476)
Net assets		37,048	37,379
Equity			
Share capital	17	42,926	42,926
Retained losses	17	(5,612)	(6,065)
Other (deficit)/equity	17	(266)	518
Total equity		37,048	37,379

The financial statements on pages 9 to 28 were approved and authorised for issue by the Board of Directors on 19 September 2019 and signed on its behalf by:

NJ McCulloch
Director

Company number 04181384

Spirit Resources (Armada) Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Other deficit £ 000	Retained losses £ 000	Total equity £ 000
At 1 January 2018	42,926	518	(6,065)	37,379
Profit for the year	-	-	453	453
Other comprehensive loss	-	(784)	-	(784)
Total comprehensive (loss)/income	-	(784)	453	(331)
At 31 December 2018	42,926	(266)	(5,612)	37,048

	Share capital £ 000	Other equity £ 000	Retained losses £ 000	Total equity £ 000
At 1 January 2017	42,926	975	(12,196)	31,705
Profit for the year	-	-	6,131	6,131
Other comprehensive loss	-	(457)	-	(457)
Total comprehensive (loss)/income	-	(457)	6,131	5,674
At 31 December 2017	42,926	518	(6,065)	37,379

Spirit Resources (Armada) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1. General information

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

The principal place of business is:

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

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

2. Accounting policies

Basis of preparation

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

From 1 January 2018, 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:

- IFRS 9 'Financial Instruments'; and
- IFRS 15 'Revenue from contracts with customers'.

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

- the requirements of IFRS 7 'Financial Instruments: Disclosure';
- the requirements of IFRS 12 'Fair Value Measurement';
- the requirements of IAS 7 'Statement of Cash Flows';
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- prior year reconciliations for property, plant and equipment;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel;
- disclosures in respect of capital management; and
- disclosure of the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

The financial statements have been prepared on the historical cost basis.

2. Accounting policies (continued)

Going concern
The financial statements have been prepared using the going concern basis of accounting as Spirit Energy Limited, an intermediate parent company, has agreed to provide financial support until 21 October 2020.

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

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

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

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

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

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

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

2. Accounting policies (continued)

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.

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.

Borrowing costs

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Borrowing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a financing rate representative of the weighted average borrowing rate is used. Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

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). 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 costs'. 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.

2. Accounting policies (continued)

Taxation
Current tax, including UK corporation 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 difference will not reverse in the foreseeable future.

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

Development and production assets
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 service 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 the proven and probable ('2P') reserves of those fields. Changes in these estimates are dealt with prospectively.

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

Property, plant and equipment ('PP&E')
PP&E is included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Other PP&E, with the exception of upstream production assets (for which the 'unit of production method' (UOP) is used), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

2. Accounting policies (continued)

Property, plant and equipment ('PP&E') (continued)

Depreciation of PP&E
Depreciation is charged as follows:

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

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.

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

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

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

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

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 reporting date.

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

Impairment
The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ('CGU') is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU).

2. Accounting policies (continued)

Impairment (continued)
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 balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

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

Trade receivables are initially recognised at fair value, which 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 allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not, they are presented as non-current assets.

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

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

c) Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Company's Income Statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Such key judgements include the presentation of elected items as exceptional (see note 7). 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 reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed annually and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet 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 2025.

Gas and liquids reserves

The volume of 2P gas and liquids reserves is an estimate that affects the UOP depreciation of producing gas and liquids PP&E as well as being a significant estimate that affects decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described in the Group's consolidated financial statements for the year ended 31 December 2018 on page 60.

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.

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 cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are E&P oil and gas assets the carrying value of which is £nil (2017: £nil) as at 31 December 2018 (See note 12).

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.

Spirit Resources (Armada) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

4. Discontinued operations

During the current year, a sale and purchase agreement was entered into on 20 March 2018 to sell the Armada area assets with the sale completing on 1 June 2018. As a result of the sale of the assets a loss on disposal of £461,000 was incurred and the Company has retained a decommissioning liability in relation to the assets.

During the prior year, the Company elected not to enter the second phase of the Block 2ab Production Sharing Contract, which is what is shown as discontinued.

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

	2018 £ 000	2017 £ 000
Expenses	-	(392)
Loss before tax	**-**	**(392)**
Exchange differences recycled to Company Income Statement on disposal	-	1,140
Loss on disposal of assets held for sale	(471)	-
Tax credit for the year	-	224
(Loss)/Profit for the year from discontinued operations	**(471)**	**972**

5. Revenue

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

By activity:

	2018 £ 000	2017 £ 000
Sale of gas and liquids from production	1,279	3,273

All revenue is derived in the United Kingdom.

6. Analysis of costs by nature

	2018			2017		
	Cost of sales	Operating costs	Total costs	Cost of sales	Operating costs	Total costs
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Year ended 31 December						
Transportation, distribution and metering costs	409	-	409	850	-	850
Depreciation	-	-	-	8	-	8
Foreign exchange (gains)/losses	-	(373)	(373)	-	11	11
Other operating costs	871	22	893	1,117	164	1,281
Total operating costs/(income) by nature	1,280	(351)	929	1,975	175	2,150

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

7. Exceptional items

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

	2018 £ 000	2017 £ 000
Decommissioning provision revision	406	6,455

During the current year, the Company recognised an exceptional income of £406,000 (2017: £6,455,000) on the revision of the decommissioning provision of the fully impaired Armada field.

8. Directors' remuneration

The Directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Directors' emoluments	91	47
Contributions into pension schemes	5	4
	96	51

Remuneration of the highest paid Director:

	2018 £ 000	2017 £ 000
Directors' emoluments	30	20
Contributions into pension schemes	-	2
	30	22

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

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

	2018 No.	2017 No.
Received or were entitled to receive shares under long term incentive schemes	-	3
Accruing benefits under defined benefit pension scheme	-	1
Accruing benefits under money purchase pension scheme	5	2

9. Net finance income

Finance income

	2018 £ 000	2017 £ 000
Interest income from amounts owed by Group undertakings	651	859

Finance cost

	2018 £ 000	2017 £ 000
Interest on amounts owed to Group undertakings	-	(228)
Interest on bank overdrafts and borrowings	(2)	(1)
Net foreign exchange losses on financing transactions	-	(254)
Unwind of discount on provisions (note 16)	(117)	(193)
Total finance cost	(119)	(676)
Net finance income	532	183

10. Auditor's remuneration

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

	2018 £ 000	2017 £ 000
Audit fees	12	12

11. Tax

Tax charged/(credited) in the Income Statement

	2018 £ 000	2017 £ 000
Current tax		
UK corporation tax at 40% (2017: 40%)*	263	448
UK corporation tax adjustment to prior years	(44)	186
Total current tax	219	634
Deferred tax		
Origination and reversal of temporary differences - UK	145	1,744
Total deferred tax	145	1,744
Tax on profit	364	2,378

*The tax rates of the comparative figures have been combined to reflect the rate applicable to the Company.

11. Tax (continued)

The main rate of corporation tax for the year to 31 December 2018 was 19% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020 following the enactment of Finance Act 2016. The deferred tax assets and liabilities included in these financial statements are based on the reduced rate of 17% having regard to their reversal profiles.

Upstream gas and oil production activities are taxed at a corporation tax rate of 30% (2017: 30%) plus a supplementary charge of 10% (2017: 10%) to give an overall rate of 40% (2017: 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.

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

	2018 £ 000	2017 £ 000
Profit before tax - continuing operations	1,288	7,761
(Loss)/profit before tax - discontinued operations	(471)	748
Profit before tax	817	8,509
Tax on profit at standard UK corporation tax rate of 40% (2017: 40%)*	327	3,404
Effects of:		
Adjustments in respect of prior years	(44)	186
Increase from effect of different UK tax rates on some earnings	(136)	(263)
Additional relief on abandonment expenditure	29	(985)
Loss on disposal not deductible/(profit on disposal non-taxable)	188	(12)
Group relief not paid for	-	48
Total tax	364	2,378
Split as follows:		
Total tax from continuing operations	364	2,602
Total tax from discontinued operations	-	(224)

* The tax rates of the comparative figures have been combined to reflect the rate applicable to the Company.

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

	Accelerated tax depreciation (corporation tax) £ 000	Other timing differences including losses carried forward £ 000	Total £ 000
1 January 2017	224	6,447	6,671
Charged to the Income Statement	(224)	(1,520)	(1,744)
31 December 2017	-	4,927	4,927
Charged to the Income Statement	-	(145)	(145)
31 December 2018	-	4,782	4,782

12. Property, plant and equipment

	Development and production assets £ 000
Cost	
At 1 January 2018	55,302
Additions	-
At 31 December 2018	53,302
Accumulated depreciation	
At 1 January 2018	(53,302)
Depreciation charge for the year	-
At 31 December 2018	(53,302)
Net book value	
At 31 December 2018	-
At 31 December 2017	-

13. Trade and other receivables

	2018 Current £ 000	2017 Current £ 000
Trade receivables	-	9
Amounts owed by fellow Group undertakings	45,454	45,577
Prepayments	-	249
	45,454	45,835

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed by Group undertakings disclosed above is £45,772,000 receivable (2017: £45,505,000 receivable) that bears interest at the quarterly rates ranging between 0.50% and 0.74% (2017: ranged between 0.50% and 1.38%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are 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, an intermediate parent company.

year.

14. Inventories

	2018 £ 000	2017 £ 000
Operational spares and consumables	-	18

Operational spares and consumables recognised as an expense in the year and included in cost of sales amounted to £nil (2017: £nil). The write-down of inventories to net realisable value amounted to £nil (2017: £nil). The reversal of write-downs amounted to £nil (2017: £nil). The write-down and reversal are included in operating costs.

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

15. Trade and other payables

	2018 Current £ 000	2017 Current £ 000
Accrued expenses	452	141
Amounts owed to fellow Group undertakings	3,090	2,859
Amounts owed to other related parties (note 18)	18	-
Other payables	-	443
	3,560	3,443

The amounts owed to 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 unsecured and repayable on demand.

16. Provisions for other liabilities and charges

	Decommissioning £ 000
At 1 January 2018	9,853
Unused provision reversed to the Income Statement (Note 7)	(406)
Increase due to discount unwinding (Note 9)	117
At 31 December 2018	9,564
Non-current liabilities	9,564
Current liabilities	-

16. Provisions for other liabilities and charges (continued)

Decommissioning

The Company has recognised provisions for its obligations to decommission its oil and gas fields at the end of their operating lives. The provisions recognised represent the best estimate of the expenditures required to settle the present obligation at the current reporting date based on existing technology and current legislation requirements. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term pre-tax real rate of 1.2% (2017: 1.2%).

The timing of decommissioning payments is dependent on the life of the field but are anticipated to occur between 2021 and 2025 (2017: 2018 and 2022).

17. Capital and reserves

Share capital

Allotted, called up, authorised and fully paid shares

	2018		2017	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	42,926	42,926	42,926	42,926

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.

Reserves

Other 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.

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.

18. Related party transactions

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

2018	Sale of goods and services (i)	Purchase of goods and services (i)	Amounts owed from	Amounts owed to
	£ 000	£ 000	£ 000	£ 000
British Gas Trading Limited	1,121	(52)	-	(18)
	1,121	**(52)**	**-**	**(18)**

(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.

18. Related party transactions (continued)

2017	Sale of goods and services (i)	Purchase of goods and services (i)	Amounts owed from	Amounts owed to
	£ 000	£ 000	£ 000	£ 000
British Gas Trading Limited	2,288	(1)	-	(18)
	2,288	**(1)**	-	**(18)**

(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.

19. 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.