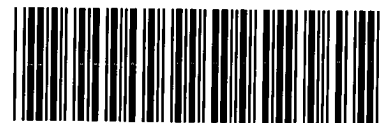


Registration number: 04181384

Spirit Resources (Armada) Limited
Annual Report and Financial Statements
for the Year Ended 31 December 2019

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Spirit Resources (Armada) Limited

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Spirit Resources (Armada) Limited

Strategic Report for the Year Ended 31 December 2019

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

Principal activities

Following the sale on 1 June 2018 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 £1,497,000 (2018: £406,000) on the revision of the decommissioning provision of the Armada field.

During the prior year, the Company sought 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 £471,000 was incurred in the prior year and the Company has retained a decommissioning liability in relation to the assets.

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

In response to the challenges presented by COVID-19, as disclosed in the going concern statement and in note 18, the wider group has undertaken a review of operations in order to mitigate the liquidity risk. This action had enabled the Company to trade in the normal course of business and management remain vigilant to developments in the gas and oil sector.

Financial position

The financial position of the Company is presented in the Balance Sheet on page 11. Total equity at 31 December 2019 was £38,119,000 (2018: £37,048,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties, including COVID-19, are integrated with those of 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 14 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report.

Exit from the European Union

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

Key performance indicators ('KPIs')

The performance of the Company is included in the consolidated results of Spirit Energy Limited (the 'Group'). The Directors of Spirit Energy Limited manage the Group on a divisional basis and use a number of KPIs to monitor progress against the Group's strategy. For this reason, the Company's Directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance and position of the business of the Company. A discussion of the Group KPIs is on page 12 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report and are available at the address detailed in note 17 of these financial statements.

Spirit Resources (Armada) Limited

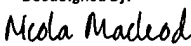
Strategic Report for the Year Ended 31 December 2019 (continued)

Future developments

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

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

Approved by the Board on 14 July 2020 and signed on its behalf by:

DocuSigned by:

9B74D2A2F71F41C...
NJ Macleod
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 2019

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

Directors of the Company

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

GM Harrison

NJ Macleod

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 2019 is £547,000 (2018: £453,000).

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

Events after the balance sheet date

Significant events since the balance sheet date are contained in note 18 to the Financial Statements on page 26.

Future developments

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

Financial risk management

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

Going concern

The financial statements have been prepared on a going concern basis as Spirit Energy Limited, 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 until 27 September 2021.

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

Spirit Resources (Armada) Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

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 Section 234 of the Companies Act 2006, were in force for the benefit of the Directors of the Company during the year and up to and including the date of the Directors' report.

Disclosure of information to auditor

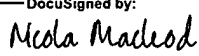
Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and that they have taken all steps that they ought to have taken as Directors to make themselves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

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

Auditor

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

Approved by the Board on 14 July 2020 and signed on its behalf by:

DocuSigned by:

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NJ Macleod
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 2019

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

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

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

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

Spirit Resources (Armada) Limited

Independent Auditor's Report to the Member 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 2019 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 18.

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.

Spirit Resources (Armada) Limited

Independent Auditor's Report to the Member 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.

Spirit Resources (Armada) Limited

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

Use of our report

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

DocuSigned by:

Graham Hollis

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

Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

14 July 2020

Spirit Resources (Armada) Limited**Income Statement for the Year Ended 31 December 2019**

	Note	2019 £ 000	2018 £ 000
Revenue	5	-	1,279
Cost of sales	6	3	(1,280)
Gross profit/(loss)		3	(1)
Operating (costs)/income	6	(4)	351
Exceptional items - decommissioning provision revision	7	1,497	406
Operating profit		1,496	756
Finance income	9	314	651
Finance cost	9	(554)	(119)
		(240)	532
Profit before taxation		1,256	1,288
Tax expense	11	(709)	(364)
Profit for the year from continuing operations		547	924
Loss for the year from discontinued operations (net of taxation)	4	-	(471)
Profit for the year		547	453

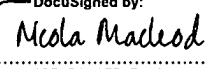
Spirit Resources (Armada) Limited**Statement of Comprehensive Income for the Year Ended 31 December 2019**

	2019 £ 000	2018 £ 000	2018 £ 000
	Continuing operations	Continuing operations	Discontinued operations
Profit/(loss) for the year	<u>547</u>	<u>924</u>	<u>(471)</u>
Items that will be or have been reclassified to the Income Statement			
Exchange differences on translating foreign operations	<u>524</u>	<u>(784)</u>	<u>-</u>
Other comprehensive income/(loss)	<u>524</u>	<u>(784)</u>	<u>-</u>
Total comprehensive income/(loss) for the year	<u>1,071</u>	<u>140</u>	<u>(471)</u>

Spirit Resources (Armada) Limited**Balance Sheet as at 31 December 2019**

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Deferred tax assets	11	4,091	4,782
		<u>4,091</u>	<u>4,782</u>
Current assets			
Trade and other receivables	12	45,834	45,454
Cash and cash equivalents		52	116
		<u>45,886</u>	<u>45,570</u>
Total assets		49,977	50,352
Current liabilities			
Trade and other payables	13	(3,496)	(3,560)
Current tax liabilities		(180)	(180)
		<u>(3,676)</u>	<u>(3,740)</u>
Net current assets		42,210	41,830
Total assets less current liabilities		46,301	46,612
Non-current liabilities			
Provisions for other liabilities and charges	14	(8,182)	(9,564)
		<u>(8,182)</u>	<u>(9,564)</u>
Total liabilities		(11,858)	(13,304)
Net assets		38,119	37,048
Equity			
Share capital	15	42,926	42,926
Retained losses	15	(5,065)	(5,612)
Other reserve/(deficit)	15	258	(266)
Total equity		38,119	37,048

The financial statements on pages 9 to 26 were approved and authorised for issue by the Board of Directors on 14 July 2020 and signed on its behalf by:

DocuSigned by:

 9B74D2A2F71F41C...
 NJ Macleod
 Director
 Company number 04181384

Spirit Resources (Armada) Limited**Statement of Changes in Equity for the Year Ended 31 December 2019**

	Share capital £ 000	Other (deficit)/reserve £ 000	Retained losses £ 000	Total equity £ 000
At 1 January 2019	42,926	(266)	(5,612)	37,048
Profit for the year	-	-	547	547
Other comprehensive income	-	524	-	524
Total comprehensive income	-	524	547	1,071
At 31 December 2019	42,926	258	(5,065)	38,119

	Share capital £ 000	Other reserve/(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

Spirit Resources (Armada) Limited

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

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

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

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

2. Accounting policies

Basis of preparation

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

The Company adopted IFRS 16: 'Leases' from 1 January 2019. The first-time adoption did not have any impact on the financial statements as the Company has no leases which fall under the scope of IFRS 16.

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

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

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

- the requirements of IFRS 7 'Financial Instruments: 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; and
- disclosures in respect of capital management.

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

Spirit Resources (Armada) Limited

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

2. Accounting policies (continued)

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 until 27 September 2021.

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

Summary of significant accounting policies and key accounting estimates

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

Revenue recognition

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

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

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

Finance income

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

Finance costs

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

Cost of sales

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

Spirit Resources (Armada) Limited

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

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.

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. 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.

Spirit Resources (Armada) Limited

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

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.

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

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.

Spirit Resources (Armada) Limited

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

2. Accounting policies (continued)

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 impairment provision calculated under the expected credit loss model. 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.

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.

Spirit Resources (Armada) Limited

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Such key judgements include the presentation of elected items as exceptional (see note 7). No other key judgements have been made by the Directors in applying the Company's accounting policies.

b) Key source 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 (note 14)

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. The decommissioning costs held in Spirit Resources (Armada) Limited were retained following the terms of the SPA in 2018 when the Armada field was disposed of. 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 2027.

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

Spirit Resources (Armada) Limited

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

4. Discontinued operations

During the prior 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 £471,000 was incurred and the Company has retained a decommissioning liability in relation to the assets (see note 14).

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

	2019	2018
	£ 000	£ 000
Loss on disposal of assets held for sale	-	(471)

5. Revenue

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

By activity:

	2019	2018
	£ 000	£ 000
Sale of gas and liquids from production	-	1,279

All revenue arose from activities in the United Kingdom.

Spirit Resources (Armada) Limited

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

6. Analysis of costs/(income) by nature

	2019			2018		
	Cost of sales	Operating costs	Total costs	Cost of sales	Operating costs	Total costs
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
<i>Year ended 31 December</i>						
Transportation, distribution and metering (income)/costs	(4)	-	(4)	409	-	409
Foreign exchange losses/(gains)	-	1	1	-	(373)	(373)
Other operating costs	1	3	4	871	22	893
Total operating (income)/costs by nature	(3)	4	1	1,280	(351)	929

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

Spirit Resources (Armada) Limited

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

7. Exceptional items

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

	2019 £ 000	2018 £ 000
Decommissioning provision revision (note 14)	1,497	406

During the current year, the Company recognised an exceptional income of £1,497,000 (2018: £406,000) 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:

	2019 £ 000	2018 £ 000
Directors' emoluments	-	91
Contributions into pension schemes	-	5
	-	96

Remuneration of the highest paid Director:

	2019 £ 000	2018 £ 000
Directors' emoluments	-	30

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

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

	2019 No.	2018 No.
Accruing benefits under money purchase pension scheme	-	5

Spirit Resources (Armada) Limited**Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)****9. Net finance income****Finance income**

	2019	2018
	£ 000	£ 000
Interest income from amounts owed by Group undertakings	314	651

Finance cost

	2019	2018
	£ 000	£ 000
Interest on bank overdrafts and borrowings	(50)	(2)
Net foreign exchange losses on financing transactions	(389)	-
Unwind of discount on provisions (note 14)	(115)	(117)
	(554)	(119)
Net finance (cost)/income	(240)	532

10. Auditor's remuneration

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

	2019	2018
	£ 000	£ 000
Audit fees	12	12

11. Tax

Tax charged/(credited) in the Income Statement

	2019	2018
	£ 000	£ 000
Current tax		
UK corporation tax at 40% (2018: 40%)	(33)	263
UK corporation tax adjustment to prior years	51	(44)
Total current tax	18	219
Deferred tax		
Origination and reversal of temporary differences - UK	691	145
Total deferred tax	691	145
Tax on profit	709	364

Spirit Resources (Armada) Limited

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

11. Tax (continued)

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

Upstream gas and oil production activities are taxed at a corporation tax rate of 30% (2018: 30%) plus a supplementary charge of 10% (2018: 10%) to give an overall rate of 40% (2018: 40%). 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:

	2019	2018
	£ 000	£ 000
Profit before tax - continuing operations	1,256	1,288
Loss before tax - discontinued operations	-	(471)
Profit before tax	1,256	817
Tax on profit at standard UK corporation tax rate of 40% (2018: 40%)	502	327
<i>Effects of:</i>		
Adjustments in respect of prior years	51	(44)
Increase/(decrease) from effect of different UK tax rates on some earnings	17	(136)
Additional relief on abandonment expenditure	139	29
Loss on disposal not deductible	-	188
Total tax charge	709	364
Split as follows:		
Total tax from continuing operations	709	364
Total tax from discontinued operations	-	-

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	Total
	£ 000	£ 000	£ 000
1 January 2018	-	4,927	4,927
Charged to the Income Statement	-	(145)	(145)
31 December 2018	-	4,782	4,782
Charged to the Income Statement	-	(691)	(691)
31 December 2019	-	4,091	4,091

Spirit Resources (Armada) Limited**Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)****12. Trade and other receivables**

	2019	2018
	£ 000	£ 000
Amounts owed by fellow Group undertakings	45,834	45,454

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 £45,824,000 receivable (2018: £45,772,000 receivable) that bears interest at the monthly rates ranging between 0.50% and 0.74% (2018: ranged between 0.50% and 0.74%). 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.

13. Trade and other payables

	2019	2018
	£ 000	£ 000
Accrued expenses	352	452
Amounts owed to fellow Group undertakings	3,113	3,090
Amounts owed to other related parties (note 16)	31	18
	<u>3,496</u>	<u>3,560</u>

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.

Spirit Resources (Armada) Limited

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

14. Provisions for other liabilities and charges

	Decommissioning £ 000
At 1 January 2019	9,564
Unused provision reversed to the Income Statement (Note 7)	(1,497)
Increase due to discount unwinding (Note 9)	115
At 31 December 2019	8,182
Non-current liabilities	8,182
Current liabilities	-

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% (2018: 1.2%).

The timing of decommissioning payments is dependent on the life of the field but are anticipated to occur between 2024 and 2027 (2018: 2021 and 2025).

15. Capital and reserves

Share capital

Allotted, called up, authorised and fully paid shares

	2019		2018	
	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 reserves/(deficit)

The other reserves 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. 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.

Spirit Resources (Armada) Limited

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

16. Related party transactions

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

2019	Sale of goods and services (i)	Purchase of goods and services (i)	Amounts owed from	Amounts owed to (note 13)
	£ 000	£ 000	£ 000	£ 000
Centrica Plc	-	-	-	(13)
British Gas Trading Limited	-	(4)	-	(18)
	-	(4)	-	(31)

(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.

2018	Sale of goods and services (i)	Purchase of goods and services (i)	Amounts owed from	Amounts owed to (note 13)
	£ 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.

17. 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.

18. Non-adjusting events after the balance sheet date

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

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