

Registration number: 6811566

Bowland Resources Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017

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Bowland Resources Limited

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Bowland Resources Limited

Strategic Report for the Year Ended 31 December 2017

The Directors present their Strategic Report for Bowland Resources Limited ('the Company') for the year ended 31 December 2017.

Principal activities

The principal activities of the Company are the exploration and evaluation of onshore oil and gas projects in the Bowland basin, Lancashire, United Kingdom, and production of oil and gas from the Chiswick field in the Netherlands.

Review of the business

In October 2016, planning appeals were upheld to allow drilling, fracking and extended well tests on up to 4 wells at the Preston New Road ('PNR') site. The application at Rosèacre Wood ('RW') was deferred pending further information on specific traffic and highway matters, although the Secretary of State stated that he is minded to allow the application, subject to review of the further information requested. The Planning Inquiry for the proposed RW site which reopened to hear additional evidence on these matters, concluded in April 2018.

Two parties subsequently brought legal challenges, seeking to overturn the Secretary of State's decision to uphold the planning appeals at PNR. The High Court rejected the cases but both parties were granted leave to appeal by the Court of Appeal. On the 12th January 2018 the Court of Appeal rejected the appeals. In both cases the decision of the three presiding judges was unanimous. Both appellants subsequently sought leave to appeal their cases to the Supreme Court, with the Court of Appeal denying both requests. Reports indicate one of the parties has since lodged a request for leave to appeal directly with the Supreme Court. There is no set timescale for the Supreme Court to respond to such applications. Legal analysis is that, given the strength of the judgements by both the High Court and the Court of Appeal, the Supreme Court is unlikely to grant leave to the parties.

The Joint Venture has agreed an initial two well programme at the PNR site, along with an extended well test. Site construction operations commenced in January 2017 and drilling operations are ongoing.

Financial position

The financial position of the Company is presented in the Statement of Financial Position on page 11. Total equity at 31 December 2017 was £4,636,000 (2016: £6,724,000). The increase in operating costs from £1,269,000 to £5,991,000 relates to an increased activity due to the development of Preston New Road site.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Centrica plc group (the 'Group') and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 52 to 62 of the Group's Annual Report and Accounts 2017, which does not form part of this report.

Bowland Resources Limited

Strategic Report for the Year Ended 31 December 2017 (continued)

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 is well-positioned to manage the possible market impacts. 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 Directors of Centrica plc manage the Group on a divisional basis. 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. The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are disclosed on pages 30 to 31 of the Group's Annual Report and Accounts 2017, which does not form part of this report.

Future developments

The Group continues to implement the results of the 2015 strategic review. This implementation includes a review of how the Group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of the Company. The Directors expect the Company to continue in the exploration, appraisal and production of oil and gas for the foreseeable future.

Approved by the Board on ~~1 Sept 2018~~ and signed on its behalf by:

 Samantha Hood

By order of the Board for and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No. 6811566

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire

SL4 5GD

Bowland Resources Limited

Directors' Report for the Year Ended 31 December 2017

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

Directors of the Company

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

RA Lumsden (resigned 14 July 2017)

KM Robertson (resigned 8 December 2017)

S Meland

PMR Tanner (resigned 31 May 2018)

AD Le Poidevin (appointed 14 July 2017)

Results and dividends

The results of the Company are set out on page 9. The loss for the financial year ended 31 December 2017 is £2,789,000 (2016: profit of £2,249,000).

No dividends were paid during the year (2016: £nil) and the Directors do not recommend the payment of a final dividend (2016: £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 Centrica plc, the ultimate 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 Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue.

Directors' and officers' liability

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

Bowland Resources Limited

Directors' Report for the Year Ended 31 December 2017 (continued)

Statement of Directors' Responsibilities for the Year Ended 31 December 2017

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), 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, including FRS 101 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.

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

Bowland Resources Limited

Directors' Report for the Year Ended 31 December 2017 (continued)

Auditors

Following a rigorous selection process by the Audit Committee of Centrica plc, Deloitte LLP was selected as the Group's external auditor for the financial year commencing 1 January 2017. Consequently, PricewaterhouseCoopers LLP ('PwC') ceased to hold office as auditor of the Company in 2017.

Pursuant to Section 519 of the Companies Act 2006, PwC has confirmed that there are no circumstances in connection with their ceasing to hold office that need to be brought to the attention of the members or creditors of the Company.

Following the resignation of PwC as auditors of the Company and, pursuant to Section 487 of the Companies Act 2006, Deloitte LLP were appointed as auditors of the Company.

Approved by the Board on ~~7 SEP 2018~~ and signed on its behalf by:

 Samantha Hood

By order of the Board for and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No. 6811566

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire

SL4 5GD

Bowland Resources Limited

Independent Auditors' Report to the Members of Bowland Resources Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bowland Resources Limited which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 (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 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 related 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 the 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 on these matters.

Bowland Resources Limited

Independent Auditors' Report to the Members of Bowland Resources Limited (continued)

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 auditors' 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.

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.

Auditors' 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 auditors' 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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 auditors' 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.

Bowland Resources Limited

Independent Auditors' Report to the Members of Bowland Resources Limited (continued)

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.

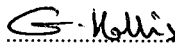
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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.

.....

Graham Hollis ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

Date: 7/9/18.....

Bowland Resources Limited

Income Statement for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Revenue	4	5,106	6,089
Cost of sales	5	<u>(4,073)</u>	<u>(4,703)</u>
Gross profit		1,033	1,386
Operating costs	5	<u>(5,991)</u>	<u>(1,269)</u>
Operating (loss)/profit		<u>(4,958)</u>	<u>117</u>
Finance income	6	1,333	-
Finance cost	6	<u>(1,307)</u>	<u>(2,985)</u>
		<u>26</u>	<u>(2,985)</u>
Loss before income taxation		(4,932)	(2,868)
Income tax credit	8	<u>2,143</u>	<u>5,117</u>
(Loss)/profit for the year from continuing operations		<u><u>(2,789)</u></u>	<u><u>2,249</u></u>

The notes on pages 13 to 29 form an integral part of these financial statements.

Bowland Resources Limited

Statement of Comprehensive Income for the Year Ended 31 December 2017

	2017 £ 000	2016 £ 000
(Loss)/profit for the year	<u>(2,789)</u>	<u>2,249</u>
Other comprehensive income		
Items that will be or have been recycled to the Income Statement		
Exchange differences on translating foreign operations	<u>701</u>	<u>1,976</u>
Other comprehensive income net of taxation	<u>701</u>	<u>1,976</u>
Total comprehensive (loss)/income for the year	<u><u>(2,088)</u></u>	<u><u>4,225</u></u>

Bowland Resources Limited

Statement of Financial Position as at 31 December 2017

	Note	2017 £ 000	2016 £ 000
Non-current assets			
Property, plant and equipment	9	14,020	14,588
Intangible assets	10	51,738	37,481
		<u>65,758</u>	<u>52,069</u>
Current assets			
Trade and other receivables	11	12,840	7,271
		<u>12,840</u>	<u>7,271</u>
Total assets		<u>78,598</u>	<u>59,340</u>
Current liabilities			
Trade and other payables	12	(45,159)	(22,656)
Current tax liabilities		-	(6,439)
		<u>(45,159)</u>	<u>(29,095)</u>
Non-current liabilities			
Deferred tax liabilities	8	(24,488)	(19,186)
Provisions for other liabilities and charges	13	(4,315)	(4,335)
		<u>(28,803)</u>	<u>(23,521)</u>
Total liabilities		<u>(73,962)</u>	<u>(52,616)</u>
Net assets		<u>4,636</u>	<u>6,724</u>
Equity			
Share capital	14	-	-
Retained earnings	14	3,415	6,204
Other equity	14	1,221	520
Total equity		<u>4,636</u>	<u>6,724</u>

The financial statements on pages 9 to 29 were approved and authorised for issue by the Board of Directors on 7 September 2018 and signed on its behalf by:



AD Le Poidevin

Director

Company number 6811566

The notes on pages 13 to 29 form an integral part of these financial statements.

Bowland Resources Limited

Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital £ 000	Other equity £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2017	-	520	6,204	6,724
Loss for the year	-	-	(2,789)	(2,789)
Other comprehensive income	-	701	-	701
Total comprehensive loss	-	701	(2,789)	(2,088)
At 31 December 2017	-	1,221	3,415	4,636

	Share capital £ 000	Other equity £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2016	-	(1,456)	3,955	2,499
Profit for the year	-	-	2,249	2,249
Other comprehensive income	-	1,976	-	1,976
Total comprehensive income	-	1,976	2,249	4,225
At 31 December 2016	-	520	6,204	6,724

The notes on pages 13 to 29 form an integral part of these financial statements.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

1 General information

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

The principal place of business is:

Staines, UK
1st Floor
30 Kingston Road
Staines-upon-Thames
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 financial statements 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 2017, 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:

- Amendments to IAS 12: 'Income taxes' related to the recognition of deferred tax assets for unrealised losses.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of IAS 7 'Statement of Cash Flows';
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- prior year reconciliations for property, plant and equipment and intangible assets;
- 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; and
- disclosures in respect of capital management.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Measurement convention

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

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 Chiswick operations is the Euro). Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

Going concern

The financial statements have been prepared using the going concern basis of accounting.

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 title passes to the customer. 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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

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.

Overlift and underlift

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

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

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Foreign currencies

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

Changes in the fair value of foreign currency denominated monetary securities classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. Tax is recognised in the Income Statement except to the extent that it relates to items recognised in equity. In this case, the tax is recognised in equity.

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 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.

The amount of deferred tax provided is based on the expected manner of realisation or settlement using tax rates that have been enacted or substantively enacted at the reporting date.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

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

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

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

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

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

PP&E is included in the Statement of Financial Position 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.

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (for which the 'unit of production method' 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.

Depreciation of PP&E

Depreciation is charged as follows:

Asset class	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.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

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 reporting 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. 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 are reviewed at each reporting 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).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position 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.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

a) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed 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 discount 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) 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, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Company's Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (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

No 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 dates, 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 (including storage facility assets) is reviewed periodically and is based on reserves, price levels and technology at the reporting date. Provision is made for the estimated cost of decommissioning at the reporting date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until 2030.

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described in the Annual Report and Accounts of the ultimate controlling party being Centrica plc on page 201.

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 reporting 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 gas and oil assets.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

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

Upstream gas and oil assets

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

4 Revenue

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

By activity:	2017	2016
	£ 000	£ 000
Sale of gas and liquids from production	<u>5,106</u>	<u>6,089</u>

All revenue is derived in the Netherlands.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

5 Analysis of costs by nature

<i>Year ended 31 December</i>	2017			2016		
	Cost of sales	Other operating costs	Total costs	Cost of sales	Other operating costs	Total costs
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Transportation, distribution and metering costs	1,510	-	1,510	1,720	-	1,720
Depreciation, amortisation, impairment and write-downs	1,993	-	1,993	2,772	-	2,772
Foreign exchange losses	-	486	486	-	42	42
Other operating costs	570	5,505	6,075	211	1,227	1,438
Total operating costs by nature	4,073	5,991	10,064	4,703	1,269	5,972

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

6 Net finance income/cost

Finance income

	2017 £ 000	2016 £ 000
Interest income from amounts owed by Group undertakings	2	-
Net foreign exchange gains on financing transactions	1,331	-
Total finance income	1,333	-

Finance costs

	2017 £ 000	2016 £ 000
Interest on amounts owed to Group undertakings	(1,249)	(43)
Net foreign exchange losses on financing transactions	-	(2,878)
Unwind of discount on provisions	(58)	(64)
Total finance cost	(1,307)	(2,985)
Net finance income/(cost)	26	(2,985)

7 Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements provided to the Company.

	2017 £ 000	2016 £ 000
Audit fees	10	18

Auditors' remuneration relates to fees for the audit of the financial statements of the Company. The prior year audit fee includes both the fee for the statutory audit of the financial statements and an allocation of the audit fee for the Group's consolidated financial statements.

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the Group financial statements of its ultimate parent, Centrica plc.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

8 Income tax

Tax credited in the Income Statement

	2017 £ 000	2016 £ 000
Current tax		
UK corporation tax at 19.25% (2016: 20.00%)	(3,501)	11
Additional charges applicable to upstream profits at 20.75% (2016: 20.00%)	(3,791)	595
UK corporation tax adjustment to prior years	(153)	83
Total current tax	(7,445)	689
Deferred tax		
Origination and reversal of temporary differences - UK	5,302	(6,258)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior years	-	452
Total deferred tax	5,302	(5,806)
Tax on loss	(2,143)	(5,117)

The main rate of corporation tax for the year to 31 December 2017 was 19.25% (2016: 20%). 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% (2016: 30%) plus a supplementary charge of 10% (2016: 10%) to give an overall rate of 40% (2016: 40%). In addition, certain upstream assets in the UK attract petroleum revenue tax (PRT) at 0% (2016: 0%), giving an overall effective rate of 40% (2016: 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.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

8 Income tax (continued)

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:

	2017 £ 000	2016 £ 000
Loss before tax	(4,932)	(2,868)
Tax on loss at standard UK corporation tax rate of 19.25% (2016: 20.00%)	(949)	(574)
Effects of:		
Difference in current and deferred tax rates	2,750	(585)
Additional tax charges applicable to upstream activities	(3,791)	595
Changes in tax rates	-	(5,088)
Adjustments in respect of prior years	(153)	535
Total tax	(2,143)	(5,117)

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

	Accelerated tax depreciation (corporation tax) £ 000	Other timing differences including losses carried forward £ 000	Other provisions £ 000	Total £ 000
1 January 2016	(25,753)	(562)	1,323	(24,992)
(Charged)/credited to the Income Statement	6,144	(749)	411	5,806
31 December 2016	(19,609)	(1,311)	1,734	(19,186)
(Charged)/credited to the Income Statement	(5,325)	78	(55)	(5,302)
31 December 2017	(24,934)	(1,233)	1,679	(24,488)

The tax losses are recognised as assets because insofar as they exceed taxable profits from the reversal of existing temporary differences, sufficient taxable profits are expected in the tax jurisdictions concerned and a significant amount of those tax losses have unlimited expiry. As a result, there are no unused tax losses for which deferred tax assets have not been recognised.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

9 Property, plant and equipment

	Development and production assets £ 000
Cost or valuation	
At 1 January 2017	24,635
Additions	1,048
Revision to decommissioning assets	(194)
Retranslation of foreign currency balances	1,045
Write down	<u>(143)</u>
At 31 December 2017	<u>26,391</u>
Accumulated depreciation	
At 1 January 2017	(10,047)
Depreciation charge for the year	(1,994)
Retranslation of foreign currency balances	(473)
Write down	<u>143</u>
At 31 December 2017	<u>(12,371)</u>
Net book value	
At 31 December 2017	<u>14,020</u>
At 31 December 2016	<u>14,588</u>

There were no impairment indicators identified as at 31 December 2017 in relation to the remaining property, plant and equipment assets. Similarly, there were no 'triggering events' justifying a reversal of impairment losses previously recognised.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

10 Intangible assets

	Exploration and evaluation assets £ 000
Cost or valuation	
At 1 January 2017	37,481
Additions	14,257
At 31 December 2017	51,738
Carrying amount	
At 31 December 2017	51,738
At 31 December 2016	37,481

11 Trade and other receivables

	2017 Current £ 000	2016 Current £ 000
Amounts owed by Group undertakings	12,180	7,129
Accrued income	-	142
Other receivables	660	-
	12,840	7,271

The amounts owed by 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.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

12 Trade and other payables

	2017 Current £ 000	2016 Current £ 000
Accrued expenses	1,832	571
Amounts owed to Group undertakings	42,198	21,426
Other payables	1,129	659
	<u>45,159</u>	<u>22,656</u>

The amounts owed to 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 a £9,185,000 receivable and a £51,363,000 payable (2016: £2,511,000) that bears interest at a quarterly rate of 0.25% and 3.50% (2016: ranged between 2.37% and 3.31%) respectively. The other net amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

13 Provisions for other liabilities and charges

	Decommissioning £ 000
At 1 January 2017	4,335
Revision to provision on existing assets	(195)
Retranslation of foreign currency balances	117
Increase due to discount unwinding	58
At 31 December 2017	<u>4,315</u>
Non-current liabilities	<u>4,315</u>

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 balance sheet 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 rate of 1.2% (2016: 1.2%).

The timing of decommissioning payments is dependent on the life of the field but are anticipated to occur in 2030 (2016: 2030).

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

14 Capital and reserves

Share capital

Allotted, called up and fully paid shares

	2017		2016	
	No. 000	£ 000	No. 000	£ 000
100 (2016: 100) Ordinary shares of \$1 each	-	-	-	-

Reserves

Other equity

The other equity caption is mainly made 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 earnings

The balance classified as retained earnings 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.

15 Other commitments and contingencies

On 13 June 2013, the Group acquired a 25% interest in the Bowland exploration licenses in Lancashire from Cuadrilla Resources Ltd and AJ Lucas Group Ltd for £44 million in cash and payment of all costs associated with an agreed exploration work programme up to a maximum sum of £60 million. In 2015, the Group renegotiated the commercial terms around the carry and contingent payment obligations agreed at acquisition.

The carry associated with the exploration work programme was suspended until such time as planning permission was granted for the exploration work programme to be completed. On 6th October 2016 the Secretary of State granted planning consent and payments under the carry recommenced, with the remaining exploration carry at 2017 year-end being £6m.

In respect of its contingent payment obligations should the Group elect to retain its interest following completion of the agreed exploration work programme, the terms were amended from a fixed one-off payment to Cuadrilla Resources Ltd and AJ Lucas Group Ltd of £60 million, to payment of additional costs totalling £35 million under a further carry agreement. The Company's share of the contingent liabilities is £26.25 million.

Bowland Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (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:

	Amounts owed from £ 000
Centrica plc	136
	<u>136</u>

Directors' remuneration

The Directors' remuneration for the year was as follows:

	2017 £ 000	2016 £ 000
Directors' emoluments	53	61
Compensation for loss of office	1	1
Contributions into pension schemes	3	4
	<u>57</u>	<u>66</u>

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

	2017 No.	2016 No.
Received or were entitled to receive shares under long term incentive schemes	5	6
Exercised share awards	-	1
Accruing benefits under defined benefit pension scheme	1	-
Accruing benefits under money purchase pension scheme	<u>4</u>	<u>6</u>

17 Immediate and ultimate parent undertaking

The immediate parent undertaking is Spirit North Sea Gas Limited (formerly Centrica North Sea Gas Limited), a company registered in Scotland.

The ultimate parent undertaking and controlling party is Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated financial statements. Copies of the Centrica plc consolidated financial statements may be obtained from its registered office; Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.