Third Energy UK Gas Limited

Financial statements

for the year ended 31 December 2020

Company Registration No.01421481

Third Energy UK Gas Limited

Statement of Financial Position

31 December 2020 **Company Registration No. 01421481**

	Notes	2020	2019
		£'000	£'000
Fixed Assets			
Intangible assets	4	23,151	23,109
Tangible assets	5	1,531	1,575
		24,682	24,684
Current Assets			
Debtors	6	241	333
Cash at bank and in hand		32	48
		273	381
Creditors: Amounts falling due within one year	7	(73,190)	(72,057)
Net Current Liabilities		(72,917)	(71,676)
Total Assets less Current Liabilities		(48,235)	(46,992)
Provisions for liabilities	8	(5,535)	(5,438)
Net Liabilities		(53,770)	(52,430)
Capital and reserves			
Called up share capital	9	11,600	11,600
Capital contribution		5,790	5,790
Profit and loss account	10	(71,160)	(69,820)
Shareholders' deficit		(53,770)	(52,430)

The notes on pages 2 to 7 form part of these financial statements.

The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of financial statements.

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The Company has opted not to file the statement of comprehensive income in accordance with provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on:

Date: Sep 13, 2021

Russell Hoare

Russell Hoare (Sep 13, 2021 22:04 GMT+1)

Russell Hoare
Director

1 General information

Third Energy UK Gas Limited is a private company incorporated, domiciled and registered in England and Wales limited by shares. The principal activity of the Company continues to be that of the appraisal and development of gas assets in the United Kingdom. The registered number is 01421481 and the registered address is Knapton Generating Station, East Knapton, Malton, North Yorkshire, YO17 8JF.

2 Accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ("FRS 102") and the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

2.2 Significant judgements and estimates

The directors are required to make significant judgements and estimates in the preparation of the financial statements. The items in the financial statements where these judgements and estimates have been made include:

The directors' judgement is that the onshore development of its conventional gas licences in the North East of England is likely to generate sufficient income to cover current and future costs of development and, therefore, it is appropriate to carry forward the costs incurred to date.

The directors have taken external advice with respect to the cost of decommissioning its assets and have exercised their judgement in selecting a value from the range of values presented. The directors judgement is that, given current plans regarding the planning and timing of the decommissioning work the value adopted is the appropriate amount.

The directors' judgement is also that the onshore development will generate sufficient cash to enable the balances owed to fellow group companies to be repaid.

2.3 Going concern

The financial statements have been prepared on the going concern basis.

At 31 December 2020, the Company had net current liabilities of £72,917,000 (2019: £71,676,000) but included within this is an amount owed to Third Energy Onshore Limited of £72,996,000 (2019: £71,829,000). Amounts owed to group undertakings are repayable on demand, but are unlikely to be recalled and the Company has a Letter of Support from its parent company, Third Energy Onshore Limited, which has significant cash balances at 31 December 2020 (£5,076,000). As at the balance sheet date the Company funded its daily working capital requirements through these intercompany loan facilities.

The directors have a reasonable expectation that the company has adequate resources through these intercompany loan facilities to continue in operational existence for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements. Management have assessed the impact of COVID-19 and based on the forecasts prepared and the ongoing support from the parent company, Third Energy Onshore Limited, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.4 Basic financial instruments

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents comprise cash balances and call deposits. The Company has no bank overdrafts.

2 Accounting policies (continued)

2.5 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met are not provided for. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2.6 Exploration and evaluation assets

Exploration and evaluation costs are accounted for under IFRS 6 as recommended under FRS 102.

Pre-exploration costs incurred prior to having secured the legal rights to explore an area and general seismic data and other costs not specifically directed to an identified exploration licence are expensed directly to the profit and loss account as they are incurred.

Costs of exploration and development are initially capitalised as exploration and evaluation assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling, activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral asset and testing are capitalised as intangible exploration and evaluation assets.

Intangible exploration and evaluation assets are not amortised prior to the conclusion of appraisal activities but are carried forward until the existence of commercial reserves has been determined. If commercial reserves are determined to exist, the carrying value of the relevant exploration and evaluation asset is then reclassified as a development and production asset. If commercial reserves are determined not to exist, the capitalised costs that had previously been carried in intangible assets are charged to the profit and loss account as exploration expense, as soon as that determination has been made. The status of such prospects is reviewed regularly by the directors.

2.7 Development and production assets

Development and production assets are accumulated on a field by field basis and represent the cost of developing the commercial reserves and bringing them to production, together with the exploration and evaluation assets incurred in finding commercial reserves as described above.

Development and production assets also includes the cost of items purchased to be used on gas assets but held in stock to be used in future. A provision of 50% is made against the cost of these items to ensure that the carrying value of these items does not exceed the value in use.

The cost of producing assets is depreciated using the unit of production method. The unit of production method is a means of computing the portion to be charged for the current period out of the total costs yet to be charged to the profit and loss account. That portion is represented by the ratio of production in the year and the estimated commercial reserves relating to that asset, taking into account future development expenditure necessary to bring those reserves to production.

2 Accounting policies (continued)

2.8 Commercial Reserves

Commercial reserves are defined as proved gas reserves supported by either actual production or a conclusive formation test which the directors intend to develop and produce.

Where unit of production calculations are required to be made in arriving at amounts stated within these financial statements, only commercial developed resources are used and not proved developed and undeveloped reserves. The directors consider such method to reflect a more appropriate approach to the unit of production calculations. In this context, developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

2.9 Impairment of development and production assets

An impairment test is performed whenever facts and circumstances suggest that the carrying value of a development or production asset, or group of assets, may be greater than the returns expected to be generated from that asset or group of assets.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 "cash-generating unit").

An impairment loss is recognised if the carrying amount of the asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a *pro rata* basis.

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 only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.10 Other fixed assets

Plant and machinery and motor vehicles and equipment are stated at historical cost less accumulated depreciation and less any provision for impairment.

The decommissioning asset is stated at an amount equal to the initial provision for decommissioning less accumulated depreciation.

Depreciation is provided so as to write off the costs of the assets to residual values over the assets' useful estimated lives, on the following bases:

Gas development & production	Unit of production method	
Decommissioning asset	Unit of production method	
Plant and Machinery	3 to 15 years	Straight line
Motor vehicles and equipment	3 to 4 years	Straight line

2.11 Provision for decommissioning

A provision for decommissioning costs is recognised in full at the commencement of operations. The amount recognised is the present value of the estimated future expenditure that will be required to decommission the company's assets and bring the land back to the state that existed prior to the assets being built. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to interest expense.

A corresponding tangible fixed asset is created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities.

2.12 Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

2 Accounting policies (continued)

2.13 Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

2.14 Turnover

Turnover represents amounts receivable from the sale of gas to its fellow subsidiary plus amounts receivable from partners in respect of joint developments and is generated entirely within the United Kingdom.

Turnover is recognised at the point and time of delivery, net of trade discounts and VAT.

2.15 Other operating income

Government grant income is recognised based on the accrual model in accordance with FRS 102 paragraph 24.4.

3 Staff costs

	2020	2019
The average monthly number of employees, including directors, during the year was as follows:	No	No
Management and administration	4	3
Technical and operations	4	13
	8	16

4 Intangible fixed assets

	Exploration and evaluation	Total
Cost	£'000	£'000
At 1 January 2020	45,090	45,090
Additions	43	43
Eliminate cost of exhausted assets	(3,134)	(3,134)
At 31 December 2020	41,999	41,999
Amortisation and impairment		
At 1 January 2020	21,981	21,981
Eliminate impairment on exhausted assets	(3,133)	
Impairment	-	-
At 31 December 2020	18,848	21,981
Net book value		
At 31 December 2020	23,151	20,018
At 31 December 2019	23,109	23,109

Following a review by the directors, commercial reserves are determined not to exist for a number of exploration and evaluation assets. As result the capitalised costs that had previously been carried in intangible assets have been charged to the profit and loss account as exploration expense. The impairment value of these exhausted assets has been eliminated by a credit to exploration expense in the profit and loss account.

5 Tangible fixed assets

	Gas development and production £'000	Decommissioning asset £'000	Plant and machinery £'000	Motor vehicles and equipment £'000	Total £'000
Cost					
At 1 January 2020	7,183	3,451	1,228	133	11,995
Additions	2	-	-	3	5
Disposals	(221)	-	-	(38)	(259)
At 31 December 2020	6,964	3,451	1,228	98	11,741
Depreciation					
At 1 January 2020	7,089	2,010	1,202	119	10,420
Charge for the year	1	-	5	9	15
Removed on disposal	(111)	-	-	(38)	(149)
Impairment	1	-	-	-	1
Impairment removed on disposal	(77)	-	-	-	(77)
At 31 December 2020	6,903	2,010	1,207	90	10,210
Net book value					
At 31 December 2020	61	1,441	21	8	1,531
At 31 December 2019	94	1,441	26	14	1,575

6 Debtors

	2020 £'000	2019 £'000
Trade debtors	-	2
Prepayments and accrued income	71	152
Other debtors	170	179
	241	333

7 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	49	106
Amounts owed to group undertakings	73,006	71,829
Taxation and social security costs	13	34
Accruals and deferred income	122	88
	73,190	72,057

Amounts owed to group undertakings are repayable on demand. There is no interest charged on these amounts.

8 Provisions for liabilities

	2020	2019
Decommissioning costs	£'000	£'000
At 1 January	5,438	5,342
Unwinding of discount to profit and loss account	97	96
At 31 December	5,535	5,438

Provision has been made for the discounted cost of restoring the plant and pipelines on the Company's wellsites and at the main generating station to a condition acceptable to the relevant authorities, which is not anticipated to happen until 18 years after the year end. The Company commissioned Dundas Consultants to calculate the current cost of decommissioning the wellsites, in the unlikely event that decommissioning was required immediately, and they reported in October 2019. These calculations have been adopted in these financial statements. Actual decommissioning costs will ultimately depend on the future cost of decommissioning which in turn will be affected by market conditions and regulations at the time. Furthermore, the timing of decommissioning will depend on the date the fields cease to produce at commercial rates which is influenced by factors such as future gas prices, which are inherently uncertain.

9 Called up share capital

	2020	2019
Ordinary shares of £1 each	No	No
Authorised	11,600	11,600
	£'000	£'000
Allotted, issued and fully paid	11,600	11,600

10 Reserves

Capital contribution

This reserve represents the cumulative value of assets and liabilities transferred to the Company.

Profit & loss account

This reserve represents cumulative profits and losses less dividends paid.

11 Guarantees and other financial commitments

The Company is a member of a VAT group and the net potential liability under the group registration as of 31 December 2020 was £nil (2019: £nil).

12 Related party transactions

The Company has taken advantage of the exemption under FRS 102.33.1A not to disclose transactions between itself and other wholly owned Group companies.

13 Ultimate parent company

The immediate parent company is Third Energy Onshore Limited.

As at the date of signing these financial statements, the immediate parent is York Energy, a company domiciled and registered in the Cayman Islands and the ultimate controlling party is Mr T Reed.

14 Auditor's information

The Auditor's report on the financial statements for the year ended 31 December 2020 was unqualified.

The audit report was signed by Shaun Mullins (Senior Statutory Auditor) on behalf of Mazars LLP on: Sep 14, 2021