

Chrysaor Resources (Irish Sea) Limited

(formerly Burlington Resources (Irish Sea) Limited)

Registered Company Number 03440053

Report and Financial Statements

31 December 2019



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Corporate Information

Directors

Phil Kirk
Andrew Osborne

Secretary

Howard Landes

Independent Auditors

PricewaterhouseCoopers LLP
The Capitol
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Aberdeen
AB11 6DA

Registered Office

Brettenham House
Lancaster Place
London
United Kingdom
WC2E 7EN

Company No. 03440053

Strategic Report

The directors present their Strategic Report for the year ended 31 December 2019.

Principal Activities and Review of the Business

Chrysaor Resources (Irish Sea) Limited (the “Company”) is now part of the Chrysaor group of companies, (the “Group”). The Company’s immediate parent company is Chrysaor Resources (U.K.) Holdings Limited and ultimate parent company is Chrysaor Holdings Limited (“CHL”). The ultimate controlling party is Harbour Energy Holdings Limited. On 30 September 2019, the Group completed the acquisition of two ConocoPhillips UK subsidiaries, including the immediate parent of the Company, from ConocoPhillips Company. Further information can be found in CHL’s consolidated annual report and accounts for the year ended 31 December 2019 (the “Group Report”). Following completion of the transaction, on 30 September 2019 the Company changed its name from Burlington Resources (Irish Sea) Limited to Chrysaor Resources (Irish Sea) Limited.

The Company’s principal activities are the acquisition, exploration, development and production of oil and gas reserves on the UK Continental Shelf. The Group’s principal activities are the acquisition, exploration, development and production of oil and gas reserves on the UK and Norwegian Continental Shelves. Further information can be found in the Group Report.

Business Review

The Company owns a 100 percent equity interest in the East Irish Sea (EIS) assets, which are managed by Spirit Energy under contract. EIS comprises the Calder, Millom and Dalton producing fields, the Rivers Terminal and the discovered Darwen and Crossans fields.

Calder, Darwen and Crossans

Managed by Spirit Energy on behalf of Chrysaor, Calder produces sour gas. It was developed with an unmanned platform and three development wells, exporting through a dedicated pipeline to the Rivers Terminal at Barrow-in-Furness, which provides compression, hydrogen sulphide removal and metering. The sweetened gas from Rivers feeds into the Spirit Energy North Morecambe Terminal for further nitrogen removal, gas dehydration and export to the grid.

In 2019 key work in the East Irish Sea embraced base maintenance and integrity scopes for safety and production critical facilities. This included installation of the Calder automatic helideck firefighting and lighting upgrades; completion of onshore turnaround vessel asset integrity; internal and non-invasive inspections; and the return to service of the Rivers Field Gas Compressor following major repairs and overhaul. The operating efficiency for Calder has improved significantly, driven by improved reliability performance from both the Rivers and the North Morecambe Terminals.

Future onshore development options include de-bottlenecking of facilities and Rivers Gas Compression optimisation to manage later-life field pressure reductions. Offshore, options for developing the discovered sour gas fields of Darwen and Crossans are being assessed. These fields would be produced through the Rivers Terminal once the Calder Field begins to decline.

Millom and Dalton

Managed by Spirit Energy on behalf of Chrysaor, the sweet natural gas from the Millom and Dalton fields in the East Irish Sea is produced through an unmanned platform and two subsea manifolds. The gas is fed, via Spirit Energy’s North Morecambe platform, to the North Morecambe Terminal for compression, dehydration and export to the grid.

Key work in 2019 included base maintenance and integrity scopes for safety and production critical facilities.

Chrysaor continues to work closely with Spirit Energy to optimise the work programme and cost structure and to develop the longer-term strategy for the EIS assets. In particular, we are engaged in improving and maintaining facility operating efficiency and in the development of a joint area plan in conjunction with the Oil and Gas Authority (OGA).

Strategic Report (continued)

Financial performance and position

The Company's results and financial position during the year were as follows:

Production for 2019 averaged 10.3 mboepd compared to 5.2 mboepd during 2018.

The Company generated revenue of £91.9 million for the year (2018: £64.1 million) and an operating profit of £22.9 million was recognised during the year (2018: £26.0 million). Net financing costs for the year totalled £4.5 million (2018: £4.6 million). Taxation expense amounted to £5.9 million (2018: £7.7 million), split between the current tax expense of £18.3 million (2018: £9.9 million) and a deferred tax credit of £12.4 million (2018: £2.2 million). Profit after tax for the year was £12.6 million (2018: £13.7 million).

During the year, the Company incurred capital spend of £3.3 million (2018: £0.1 million).

Balance Sheet and Capital Structure

At 31 December 2019, the balance sheet showed net assets of £179.2 million (2018: £186.7 million), consisting of non-current assets of £348.3 million (2018: £176.2 million), net current liabilities of £0.6 million (2018: net current assets £177.5 million) and non-current liabilities of £168.5 million (2018: £167.0 million).

Total equity balance of £179.2 million (2018: £186.7 million) consists of share capital of £1,000 (2018: £1,000), share premium of £95.4 million (2018: £95.4 million), capital contribution of £62.0 million (2018: £62.0 million) and retained earnings of £21.9 million (2018: £29.3 million).

Insurance

The Company undertakes a significant and appropriate range of insurance programmes to minimise the risk to its operational and investment programmes.

Key Performance Indicators (KPIs)

The Group's activities consist of one class of business being the acquisition, development and commercialisation of dormant discoveries and incremental hydrocarbon reserves. The Company's KPIs are aligned with those of the Group. Further information about KPIs in the context of the Group business can be found in the Group Report.

Principal Risks and Uncertainties

The Company is subject to a range of risks and uncertainties which are identified and managed by the Group. Information about risks and uncertainties in the context of the Group business can be found in the Strategic Report within the Group Report.

Strategic Report (continued)

Section 172 Companies Act 2006

The Chrysaor group adopted the requirement to include a compliance statement in relation to Section 172 Companies Act 2006. Further information can be found in the Group Strategic Report within the Group Report.

On behalf of the Board



Andrew Osborne (Director)

25 September 2020

Directors' Report

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

Directors

The following served as directors of the Company during the year and up to the date of signing of the financial statements:

Phil Kirk (appointed 30 September 2019)
Andrew Osborne (appointed 30 September 2019)
Terri King (resigned 30 September 2019)
Russell Scott (resigned 30 September 2019)
Katherine Simpson (resigned 22 May 2019)
Patrick Wolfe (appointed 22 May 2019 - resigned 30 September 2019)

Secretary

The following served as company secretaries during the year and up to the date of signing of the financial statements:

Howard Landes (appointed 30 September 2019)
David Grimshaw (resigned 30 September 2019)

Results and Dividends

The profit for the financial year amounted to £12.6 million (2018: £13.7 million). During the year, the Company declared and paid ordinary dividends of £20.0 million (2018: £nil). The directors do not recommend the payment of a final dividend (2018: £nil).

Financial Instruments

The Company finances its activities with cash. Other financial assets and liabilities, such as trade debtors, trade creditors and intercompany balances, arise directly from the Company's operating activities.

Financial instruments can give rise to foreign currency, interest rate, credit, price and liquidity risk. Information on these risks is set out in the Group Report.

Future Developments

Future activities will include the continuation of operating and developing the Company's existing licences.

Post Balance Sheet Events

In response to the COVID-19 outbreak, the Group mobilised its Crisis Management and Business Continuity Teams to monitor Government advice and manage business operations with the top priority being the safety of the workforce. The Group carried out a review of operational activities for the year and reduced the level of work to undertake only what is necessary to keep the workforce safe and to maintain continuing safe operations in all locations for as long as is necessary.

Commodity prices fell significantly in early 2020 with a degree of recovery thereafter. The Company reviewed activities for the year resulting in operating and capital expenditure being significantly reduced reflecting the lower level of activities.

Directors' Liabilities

At the date of signing these financial statements, the Company does not have any indemnity provisions to or in favour of one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006.

Directors' Report (continued)

Going Concern

The Directors have adopted the going concern basis of accounting for the preparation of the financial statements as the Company's ultimate parent company, CHL, has undertaken to directly provide the necessary financial support, to the Company, as and when required, to meet all liabilities for a period of at least 12 months from the date of signing these financial statements.

Disclosure of Information to the Auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow directors and the Company's auditors, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as independent auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



Andrew Osborne (Director)
25 September 2020

Company Registered No. 03440053

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for 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.

Independent auditors' report to the members of Chrysaor Resources (Irish Sea) Limited (formerly Burlington Resources (Irish Sea) Limited)

Report on the audit of the financial statements

Opinion

In our opinion, Chrysaor Resources (Irish Sea) Limited (formerly Burlington Resources (Irish Sea) Limited)'s financial statements:

- 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 (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Income Statement, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

Independent auditors' report to the members of Chrysaor Resources (Irish Sea) Limited (formerly Burlington Resources (Irish Sea) Limited) (continued)

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

***Independent auditors' report to the members of
Chrysaor Resources (Irish Sea) Limited (formerly
Burlington Resources (Irish Sea) Limited) (continued)***

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
25 September 2020

Income Statement

For the year ended 31 December

		2019	Restated 2018
	Note	£000	£000
Revenue	3	91,899	64,101
Cost of sales		(67,757)	(38,108)
Gross profit		24,142	25,993
Exploration costs written off		(1,213)	-
Operating profit	4	22,929	25,993
Finance income	6	473	329
Finance expenses	6	(4,949)	(4,905)
Profit before taxation		18,453	21,417
Tax expense	7	(5,903)	(7,716)
Profit for the financial year		<u>12,550</u>	<u>13,701</u>

No other comprehensive income or expense arose during the year ended 31 December 2019 (2018: £nil).

The notes on pages 15 to 34 form part of these financial statements.

Balance Sheet

As at 31 December

		2019	Restated 2018
	Note	£000	£000
Non-current assets			
Exploration and evaluation assets	8	16,195	16,996
Property, plant and equipment	9	128,371	153,091
Right of use assets	10	5,636	6,067
Deferred tax	7	8,086	-
Debtors: amounts falling due in more than one year	13	190,000	-
Total non-current assets		348,288	176,154
Current assets			
Inventories	11	1,184	1,184
Debtors: amounts falling due within one year	12	28,102	24,355
Cash and cash equivalents	14	1	172,442
Total current assets		29,287	197,981
Total assets		377,575	374,135
Current liabilities			
Creditors: amounts falling due within one year	15	(29,552)	(20,205)
Lease creditor	10	(309)	(292)
Total current liabilities		(29,861)	(20,497)
Non-current liabilities			
Provisions for liabilities	16	(162,904)	(156,706)
Lease creditor	10	(5,591)	(5,900)
Deferred tax	7	-	(4,363)
Total non-current liabilities		(168,495)	(166,969)
Total liabilities		(198,356)	(187,466)
Net assets		179,219	186,669
Capital and reserves			
Called up share capital	17	1	1
Share premium		95,382	95,382
Capital contribution		61,962	61,962
Retained earnings		21,874	29,324
Total equity		179,219	186,669

The notes on pages 15 to 34 form part of these financial statements.

The financial statements on pages 12 to 34 were approved by the Board of Directors on 25 September 2020 and signed on its behalf by:



Andrew Osborne (Director)

25 September 2020

Company Registration No: 03440053

Statement of Changes in Equity

For the year ended 31 December

	<i>Called Up Share capital £000</i>	<i>Share premium £000</i>	<i>Capital contribution £000</i>	<i>Retained earnings (ii) £000</i>	<i>Total equity £000</i>
At 1 January 2018	1	95,382	61,962	15,623	172,968
Profit for the financial year (restated) (i)	-	-	-	13,701	13,701
At 31 December 2018 (restated) (i)	<u>1</u>	<u>95,382</u>	<u>61,962</u>	<u>29,324</u>	<u>186,669</u>
Profit for the financial year	-	-	-	12,550	12,550
Dividends paid (ii)	-	-	-	(20,000)	(20,000)
At 31 December 2019	<u>1</u>	<u>95,382</u>	<u>61,962</u>	<u>21,874</u>	<u>179,219</u>

(i) See note 22 for further information on restatement

(ii) Dividend of £20,000 per share paid

Notes to the Financial statements

For the year ended 31 December 2019

1. Authorisation of Financial Statements and Statement of Compliance with FRS 101

The financial statements of the Company for the year ended 31 December 2019 were authorised for issue by the board of directors on 25 September 2020 and the balance sheet was signed on the board's behalf by Andrew Osborne.

The Company is a private company limited by share capital, incorporated and domiciled in the United Kingdom. The Company's principal place of business is London, United Kingdom and its registered office is Brettenham House, Lancaster Place, London, WC2E 7EN.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting Policies

Basis of Preparation

The financial statements are prepared under the historical cost convention, and in accordance with The Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101"). The financial statements are presented in Great British Pounds and all values are rounded to the nearest thousand pounds (£000) except when otherwise stated.

The financial statements for the year ended 31 December 2019 are the first financial statements of Chrysaor Resources (Irish Sea) Limited prepared in accordance with FRS 101. The Company transitioned from FRS 102 to FRS 101 for all periods presented and the date of transition to FRS 101 was 1 January 2018. The impact of the transition to FRS 101 is disclosed in Note 21.

The Company has also chosen to adapt the formats of the balance sheet and income statement and has applied the relevant presentation requirements of IAS1 "Presentation of Financial Statements". Comparative financial information has been re-presented where necessary. Re-presentation has not affected the substance of the financial information which remains unchanged.

The accounting policies which follow, set out those policies which apply in preparing the financial statements for the year ended 31 December 2019 under FRS 101. All accounting policies have been applied consistently, other than where new policies have been adopted. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 *Financial Instruments: Disclosures*,
- (b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*
- (c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*; and
 - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
- (d) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*;
- (e) the requirements of IAS 7 *Statement of Cash Flows*;
- (f) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (g) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

- (h) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- (i) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*.

Going Concern

The Directors have adopted the going concern basis of accounting for the preparation of the financial statements as the Company's ultimate parent company, CHL, has undertaken to directly provide the necessary financial support, to the Company, as and when required, to meet all liabilities for a period of at least 12 months from the date of signing these financial statements.

Segment Reporting

The Company's activities consist of one class of business - the acquisition, exploration, development and production of oil and gas reserves and related activities in a single geographical area, presently being the North Sea.

Joint Arrangements

Exploration and production operations are usually conducted through joint arrangements with other parties. The Company reviews all joint arrangements and classifies them as either joint operations or joint ventures depending on the rights and obligations of each party to the arrangement and whether the arrangement is structured through a separate vehicle. All interests in joint arrangements held by the Company are classified as joint operations.

In relation to its interests in joint operations, the Company recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

Foreign Currency Translation

The Company's functional currency and presentation currency is British Pounds.

Transactions recorded in foreign currencies are initially recorded in the Company's functional currency by applying an average rate of exchange. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the Income statement. Non-monetary assets and liabilities denominated in foreign currencies are measured at historic cost based on exchange rates at the date of the transaction and subsequently not retranslated.

Intangible Assets - Exploration and Evaluation Assets

Exploration and evaluation expenditure is accounted for using the successful efforts method of accounting.

(a) Pre-Licence Costs

Pre-licencing costs are expensed in the year in which they are incurred.

(b) Licencing and Property Acquisition Costs

Licence and property acquisition costs paid in connection with a right to explore in an existing exploration area are capitalised as exploration and evaluation costs within intangible assets.

Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds that recoverable amount. If no future activity

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

is planned or the related licence has been relinquished or has expired, the carrying value of the property acquisition costs is written off through Income statement. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties within development and production assets.

(c) Exploration and Evaluation Costs

Once the legal right to explore has been acquired, costs directly associated with the exploration are capitalised as exploration and evaluation intangible non-current assets until the exploration is complete and the results have been evaluated. If no potential commercial resources are discovered, the exploration asset is written off.

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least annually. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the Income statement.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties within development and production assets. No amortisation is charged during the exploration and evaluation phase.

Property, Plant and Equipment - Oil and Gas Development and Production Assets

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells including unsuccessful development or delineation wells, is capitalised as oil and gas properties within development and production assets.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

All costs relating to a development are accumulated and not depreciated until the commencement of production. From 1 January 2019, the Company prospectively changed its methodology for calculating the depreciation charge on capitalised oil and gas properties to be in line with the Chrysaor Group. Depreciation is provided using the unit of production method based on proven and probable reserves. When there is a change in the estimated total recoverable proven and probable reserves of a field, that change is accounted for prospectively in the depreciation charge over the revised remaining proven and probable reserves. Prior to 1 January 2019, depreciation was provided using the unit of production method based on proven reserves, or proven developed reserves for well costs.

An item of development and production expenditure and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income statement.

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalised. All other day-to-day repairs and maintenance costs are expensed as incurred.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

Impairment of Non-Current Assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the recoverable amount of the associated asset or cash generating unit, being the higher of the fair value less costs of disposal and value in use. When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the difference is recognised in the income statement as an impairment charge.

Financial Instruments

a. Financial Assets

The Company uses two criteria to determine the classification of financial assets: The Company's business model and contractual cash flow characteristics of the financial assets. Where appropriate the Company identifies three categories of financial assets: amortised cost, fair value through profit or loss (FVTPL), and fair value through other comprehensive income (FVOCI).

Loans and Receivables

Loans and receivables are initially measured at fair value and subsequently carried at amortised cost using the effective interest rate (EIR) method, less impairment. The EIR amortisation is presented within finance income in the Income statement.

Cash and Cash Equivalents

Cash at bank and in hand in the balance sheet comprise cash deposits with banks and in hand.

Impairment of Financial Assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Provision rates are calculated based on estimates including the probability of default by assessing counterparty credit ratings, as adjusted for forward-looking factors specific to the debtors and the economic environment and the Group's historical credit loss experience.

Credit Impaired Financial Assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer
- a breach of contract such as default or past due event
- the restructuring of a loan or advance by the Company on terms that the Company would otherwise not consider

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation, or
- the disappearance of an active market for a security because of financial difficulties

b. Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Borrowings and Loans

As noted above, these financial liabilities are recognised initially at fair value plus directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

c. Fair Values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques.

Equity

Share Capital

Share capital includes the total net proceeds, both nominal and share premium, on the issue of ordinary and preference shares of the Company.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of materials is the purchase cost, determined on first-in, first-out basis.

Provisions for Liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as part of finance costs in the Income Statement.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

The estimated cost of dismantling and restoring the production and related facilities at the end of the economic life of each field is recognised in full at the commencement of oil and gas production. The amount provided is the present value of the estimated future restoration cost. A non-current asset is also recognised. Any changes to estimated costs or discount rates are dealt with prospectively.

Taxes

i. Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax related to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or directly in equity, not in the income statement.

ii. Deferred Tax

Deferred taxation is recognised in respect of all timing differences arising between the tax bases of the assets and liabilities and their carrying amounts in the financial statements with the following exceptions:

- Deferred income tax assets are recognised only to the extent that it is probable that the taxable profit will be available against which the deductible temporary difference, carried forward tax credits or tax losses can be utilised. This includes ensuring that the company has the ability to carry back abandonment tax losses against prior period profits.
- Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised, or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying amount of the deferred income tax asset is reviewed at each balance sheet date.
- Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to offset current assets against current tax liabilities, the deferred income tax relates to the same tax authority and that same tax authority permits the Company to make a single net payment.

Revenue from Contracts with Customers

Revenue from contracts with customers is recognised when the Company satisfies a performance obligation by transferring a good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. Revenue associated with the sale of crude oil, natural gas, and natural gas liquids ("NGLs") is measured based on the consideration specified in contracts with customers with reference to quoted market prices in active markets, adjusted according to specific terms and conditions as applicable according to the sales contracts. The transfer of control of oil, natural gas, natural gas liquids and other items sold by the Company occurs when title passes at the point the customer takes physical delivery. The Company principally satisfies its performance obligations at this point in time.

Interest Income

Interest income is recognised on an accruals basis, by reference to the principal outstanding and at the effective interest rate method.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

New Accounting Standards and Interpretations

The Company adopted new and revised accounting standards and interpretations relevant to its business and effective for accounting periods beginning on or after 1 January 2019, including:

IFRS 16 Leases

The Company adopted IFRS 16 'Leases' from the effective date of 1 January 2019. IFRS 16 replaced the previous standard on accounting for leases, IAS 17, and the related interpretations. As the financial statements for the year ended 31 December 2019 are the first financial statements of Chrysaor Resources (Irish Sea) Limited prepared in accordance with FRS 101, the transition to IFRS 16 was made by restating the prior year balances to reflect the adoption of IFRS 16 from 1 January 2018.

As part of the project conducted on initial application, the Company applied the modified retrospective approach and used the practical expedient within the standard not to reassess whether a contract contains a lease and also not to recognise right of use (ROU) assets and liabilities for leases where the total lease term is less than or equal to 12 months, or for leases of low value.

The main effect on the Company is that IFRS 16 has introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases where the practical expedients above are not applicable.

From 1 January 2018, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. These liabilities are initially measured on a present value basis reflecting the net present value of the fixed lease payments and amounts expected to be payable by the Company assuming leases run to full term with no break clauses exercised. These liabilities are discounted using the lessee's incremental borrowing rate as of 1 January 2018, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2018 was 5.9%. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly impacts the amount of lease liabilities and right-of-use assets recognised.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 21.

The other pronouncements did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

Accounting Standards Issued But Not Yet Effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

Critical Accounting Judgements and Estimates

The preparation of the Company's financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions at the date of the financial statements. Estimates and assumptions are continuously evaluated and are based on management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

In particular the Company has identified the following areas where significant judgement, estimates and assumptions are required.

- *Exploration and Evaluation Expenditure*

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the Income statement in the period when the new information becomes available.

Key Sources of Estimation Uncertainty

- *Recoverability of Oil and Gas Assets*

The Company assesses each asset or cash generating unit each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value-in-use. The assessments of fair value less cost of disposal requires the use of estimates and assumptions on uncontrollable parameters such as long-term oil prices (considering current and historical prices, price trends and related factors), foreign exchange rates and discount rates.

The Company's estimate of recoverable value of assets is sensitive to commodity prices, foreign exchange and discount rate. A reduction or increase in the long-term price and foreign exchange rate assumptions of 10 percent are considered to be reasonably possible for the purposes of sensitivity analysis. Management estimates indicate that a 10 percent decrease in commodity prices or a 10 percent decrease in the USD/GBP foreign exchange rate would not give rise to a material impairment charge. Further, a 2 percent increase in the pre-tax discount rate would not give rise to a material impairment charge.

- *Decommissioning Costs*

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The Company assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, and the expected timing, extent and amount of expenditure. On the basis that all other assumptions in the calculation remain the same, a 10% increase in the cost estimates used to assess the final decommissioning obligation would result

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

in an increase to the decommissioning provision of approximately £16 million. This change would be principally offset by a change to the value of the associated asset.

- *Recovery of Deferred Tax Assets*

Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Company will recover the value. This includes ensuring that the company has the ability to carry back abandonment tax losses against prior period profits

3. Revenue

Revenue, which excludes value added tax, represents amounts receivable for sales of hydrocarbons and tariff income as follows:

	2019 £000	2018 £000
Gas sales	90,978	64,101
Other sundry sales	921	-
	<u>91,899</u>	<u>64,101</u>

Revenues of £91.9million (2018: £64.1 million) were from contracts with customers.

4. Operating Profit

This is stated after charging:

	2019 £000	Restated 2018 £000
Depreciation of property, plant and equipment	28,262	4,863
Depreciation of right of use asset	431	432
Impairment charge due to revisions to decommissioning provision	939	-
Exploration costs written off	1,213	-
Auditors' remuneration - audit of the financial statements	-	-

For the year ended 31 December 2019, the auditors' remuneration of £60,000 (2018: £26,000) was borne by another group company and was not recharged to the Company.

Any fees paid to the Company's auditors for services other than the statutory audit of the Company are disclosed on a consolidated basis in the group financial statements of the Company's ultimate parent, CHL.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

5. Staff Costs and Directors' Remuneration

The Company had no employees during the year (2018: nil).

(a) Directors' remuneration - For the first 9 months of the year under prior ownership

For 2018 and for the first 9 months of the year ended 31 December 2019, no remuneration was paid to the directors for their qualifying services in respect of the Company. As ConocoPhillips managed its operations at a divisional and geographical level it was not deemed practicable to apportion directors' remuneration between qualifying services for the Company and other group companies in which they held office. No directors received any compensation for loss of office.

(b) Directors' remuneration - For the period under Group ownership

	2019 £000	2018 £000
Directors' remuneration	256	-
Payments made in lieu of pension contributions	34	-
Pension	4	-
	<u>294</u>	<u>-</u>

The directors' remuneration refers to the total salaries, other emoluments and benefits paid to directors of the Company by fellow subsidiary, Chrysaor E&P Services Limited. The directors do not believe that it is practicable to apportion their remuneration between their services as directors of the Company and their services as directors or employees of other companies in the Group.

Payments made in lieu of pension contributions were made at the same rates as pension contributions made to employees.

The above amounts for remuneration include the following in respect of the highest paid director:

	2019 £000	2018 £000
Directors' remuneration	148	-
Payments made in lieu of pension contributions	20	-
Pension	2	-
	<u>170</u>	<u>-</u>

The directors did not receive any other remuneration or pension contribution.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

6. Finance Income and Finance Expenses

	2019	Restated 2018
	£000	£000
Finance income		
Other interest receivable	39	-
Bank interest	434	329
	<u>473</u>	<u>329</u>
Finance expenses		
Other interest payable	-	(10)
Lease interest payable	(358)	(342)
Foreign exchange loss	(8)	(48)
Unwinding of discount on decommissioning provisions (note 16)	(4,583)	(4,505)
	<u>(4,949)</u>	<u>(4,905)</u>
Net Finance expenses	<u>(4,476)</u>	<u>(4,576)</u>

7. Tax Expense

(a) Tax expense in the income statement

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019	Restated 2018
	£000	£000
Current income tax:		
UK corporation tax	18,403	10,170
Adjustments in respect of prior periods	10	(225)
Group relief - prior year	(61)	-
Total current income tax	<u>18,352</u>	<u>9,945</u>
Deferred tax:		
Origination and reversal of temporary differences	(12,449)	(2,229)
Total deferred tax	<u>(12,449)</u>	<u>(2,229)</u>
Tax expense in the income statement	<u>5,903</u>	<u>7,716</u>

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

Tax Expense (continued)

(b) Reconciliation of the total tax expense

Reconciliation between tax expense and the accounting profit multiplied by the UK standard rate of corporation tax for UK ring-fence companies is as follows:

	2019 £000	Restated 2018 £000
Profit before taxation	18,453	21,417
Tax calculated at UK standard rate of corporation tax for UK ring-fence companies of 40% (2018: 40%)	7,381	8,567
<i>Effects of:</i>		
Impact of losses relieved at different rates	(308)	(72)
Items not allowable for tax purposes / not taxable	(1,119)	(554)
Adjustments recognised for tax of prior periods	10	(225)
Group/other reliefs	(61)	-
Total tax expense reported in the income statement	5,903	7,716

(c) Deferred tax included in the balance sheet is as follows:

	Accelerated Capital Allowances £000	Abandonment £000	Other £000	Total £000
<i>As at 1 January 2018</i>	(72,359)	65,767	-	(6,592)
Deferred tax (expense)/credit (restated)	5,263	(3,084)	50	2,229
<i>At 31 December 2018</i>	<u>(67,096)</u>	<u>62,683</u>	<u>50</u>	<u>(4,363)</u>
Deferred tax (expense)/credit	9,974	2,479	(4)	12,449
<i>At 31 December 2019</i>	<u>(57,122)</u>	<u>65,162</u>	<u>46</u>	<u>8,086</u>

Deferred tax assets are recognised to the extent that the future benefit is probable. Relevant tax law is considered, together with the ability to carry back abandonment tax losses against prior period profits.

The deferred tax asset recognised is only partially offset by the deferred tax liability, resulting in an overall net deferred tax asset as at 31 December 2019.

Changes in tax rate

Legislation introduced in Finance Bill 2020, which was substantively enacted on 17 March 2020, retained the main rate of UK corporation tax for non-ring fence profits at 19% from 1 April 2020. This has no material impact on the company

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

8. Exploration and Evaluation Assets

	<i>Exploration and evaluation assets £000</i>
<i>Cost and net book value:</i>	
At 1 January 2019	16,996
Revision of decommissioning asset	412
Amounts written off	(1,213)
At 31 December 2019	<u>16,195</u>

Unsuccessful exploration written off relates to costs associated with licence relinquishments.

9. Property, Plant and Equipment

	<i>Oil & gas development & production assets £000</i>
<i>Cost:</i>	
At 1 January 2019	664,539
Additions	3,275
Revision of decommissioning asset	1,206
At 31 December 2019	<u>669,020</u>
<i>Accumulated Depreciation:</i>	
At 1 January 2019	511,448
Charge for the year	28,262
Impairment	939
At 31 December 2019	<u>540,649</u>
<i>Net book value:</i>	
At 31 December 2019	<u>128,371</u>
At 31 December 2018	<u>153,091</u>

An increase of £1.2 million to decommissioning assets was recognised as a result of an update to decommissioning estimates (note 16).

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

10. Right of Use Assets

(i) This note provides information for leases where the Company is a lessee.

	Land and buildings
	£000
Cost:	
At 1 January 2019 (restated) and 31 December 2019	6,499
Accumulated Depreciation:	
At 1 January 2019 (restated)	432
Charge for the year	431
At 31 December 2019	863
Net book value:	
At 31 December 2019	5,636
At 31 December 2018 (restated)	6,067

The Company adopted IFRS 16 "Leases" from 1 January 2018.

	2019	Restated 2018
	£000	£000
Lease Liabilities (see note 22)		
Current	309	292
Non-Current	5,591	5,900
	5,900	6,192

There were no additions to the right of use assets during 2019.

(ii) The income statement includes the following amounts relating to leases:

Depreciation charge of Right of Use Assets

	2019	Restated 2018
	£000	£000
Land and buildings	432	431

	2019	Restated 2018
	£000	£000
Lease interest (included in finance expenses - note 6)	358	342

The total cash outflow for leases in 2019 was £0.6 million (2018: £0.6 million).

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

Right of Use Assets (continued)

(iii) The Company's leasing activities and how these are accounted for

The Company leases land as part of its oil and gas operations, with the leases expiring in 2032 and 2033. Until the 2017 financial year, these leases were classified as operating leases and payments made under these leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease.

From 1 January 2018, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Right-of-use assets and lease liabilities arising from a lease are initially measured on a present value basis reflecting the net present value of the fixed lease payments and amounts expected to be payable by the Company assuming leases run to full term. The Company has applied judgement to determine the lease term in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly impacts the amount of lease liabilities and right-of-use assets recognised.

The lease payments are discounted using the Company's incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Company where possible:

- uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
-
- makes adjustments specific to the lease, for example term, country, currency and security

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs and restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

11. Inventories

	2019	2018
	£000	£000
Consumables and subsea supplies	1,184	1,184
	<u>1,184</u>	<u>1,184</u>

12. Debtors: Amounts falling due within one year

	2019	2018
	£000	£000
Trade debtors	5,471	78
Amounts owed by group undertakings	21,432	22,683
Other debtors	712	55
Prepayments and accrued income	487	1,539
	<u>28,102</u>	<u>24,355</u>

Trade receivables are non-interest bearing and are generally on 20 to 30 days' terms. All amounts owed by group companies are unsecured, interest free and are repayable on demand. As at 31 December 2019, no ECLs have been recognised relating to any receivable balance (2018: £nil).

13. Debtors: Amounts falling due in more than one year

	2019	2018
	£000	£000
Amounts owed by group companies	190,000	-
	<u>190,000</u>	<u>-</u>

The Company has confirmed that it will not seek repayment of the group loan of £190.0 million until at least 12 months from the date of approval of these financial statements and so the loan has been classified as long term. The loan is unsecured, interest free and is repayable on demand.

14. Cash and Cash Equivalents

	2019	2018
	£000	£000
Cash at bank and in hand	1	172,442
	<u>1</u>	<u>172,442</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Company only deposits cash with major banks of high-quality credit standing.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

15. Creditors: Amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	10	26
Amounts owed to group undertakings	4,193	1,418
Corporation tax payable	7,123	1,238
Accruals and deferred income	18,226	17,523
	<u>29,552</u>	<u>20,205</u>

All amounts due to group companies are unsecured, interest free and are repayable on demand.

16. Provisions for Liabilities

	Decommissioning provision £000
At 1 January 2019	156,706
Change in estimate - increase decommissioning asset	1,618
Utilisation of provision	(3)
Unwinding of discount	4,583
At 31 December 2019	<u>162,904</u>

The Company provides for the estimated future decommissioning costs on its oil and gas assets at the balance sheet date. The payment dates of expected decommissioning costs are uncertain and are based on economic assumptions of the fields concerned. The Company currently expects to incur decommissioning costs over the next 10-20 years. Decommissioning provisions are discounted at a risk-free rate of between 2.3% and 2.8% (2018: 2.7% and 3.0%) and the unwinding of the discount is presented within finance costs.

These provisions have been created based on internal and third-party estimates. Assumptions based on the current economic environment have been made, which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon market prices for the necessary decommissioning work required, which will reflect market conditions at the relevant time. In addition, the timing of decommissioning liabilities will depend upon the dates when the fields become economically unviable, which in itself will depend upon future commodity prices, which are inherently uncertain.

17. Called Up Share Capital

	2019 No.	2018 No.	2019 £000	2018 £000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	1,000	1,000	<u>1</u>	<u>1</u>

There was no issuance of ordinary shares in 2019 or 2018.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

18. Commitments and Contingencies

As at 31 December 2019, the company had placed contracts for capital expenditure amounting to £1.1 million (2018: £nil). Where the commitment relates to a joint arrangement, the amount represents the Company's net share of the commitment. Where the Company is not the operator of the joint arrangement then the amounts are based on the Company's net share of committed future work programmes.

19. Post Balance Sheet Events

In response to the COVID-19 outbreak, the Group mobilised its Crisis Management and Business Continuity Teams to monitor Government advice and manage business operations with the top priority being the safety of the workforce. The Group carried out a review of operational activities for the year and reduced the level of work to undertake only what is necessary to keep the workforce safe and to maintain continuing safe operations in all locations for as long as is necessary.

Commodity prices fell significantly in early 2020 with a degree of recovery thereafter. The Company reviewed activities for the year resulting in operating and capital expenditure being significantly reduced reflecting the lower level of activities

20. Related Party Disclosure

In accordance with FRS101.8 (k), the Company is exempt from the requirement to disclose Group related party transactions since the Company is 100% controlled within the Group and the Group's financial statements of the Company's ultimate parent undertaking CHL are publicly available from Companies House.

21. Ultimate Parent Undertaking and Controlling Party

The Company's immediate parent undertaking is Chrysaor Resources (U.K.) Holdings Limited and the ultimate parent undertaking is CHL.

At 31 December 2019, the ultimate controlling party, and the largest group of undertakings for which group financial statements are prepared, and of which the Company is a member, is Harbour Energy Holdings Limited, a company incorporated in the Cayman Islands.

The smallest group of undertakings for which group financial statements are prepared, and of which the Company is a member, is CHL. The consolidated financial statements of CHL are publicly available from Companies House.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

22. First Time Adoption of FRS 101

The financial statements for the year ended 31 December 2019 are the first financial statements of Chrysaor Resources (Irish Sea) Limited prepared in accordance with FRS 101. The Company transitioned from FRS 102 to FRS 101 for all periods presented and the date of transition to FRS 101 was 1 January 2018. The impact of the transition to FRS 101 is disclosed below.

	As previously stated 1 January 2018 £000	Effect of transition 1 January 2018 £000	FRS 101 (as restated) 1 January 2018 £000	As previously stated 31 December 2018 £000	Effect of transition 31 December 2018 £000	FRS 101 (as restated) 31 December 2018 £000
Non-current assets	184,028	6,499	190,527	170,087	6,067	176,154
Current assets	174,404	-	174,404	197,981	-	197,981
Total assets	<u>358,432</u>	<u>6,499</u>	<u>364,931</u>	<u>368,068</u>	<u>6,067</u>	<u>374,135</u>
Current liabilities	(14,454)	(307)	(14,761)	(20,205)	(292)	(20,497)
Non-current liabilities	(171,010)	(6,192)	(177,202)	(161,119)	(5,850)	(166,969)
Total liabilities	<u>(185,464)</u>	<u>(6,499)</u>	<u>(191,963)</u>	<u>(181,324)</u>	<u>(6,142)</u>	<u>(187,466)</u>
Net assets	<u>172,968</u>	<u>-</u>	<u>172,968</u>	<u>186,744</u>	<u>(75)</u>	<u>186,669</u>
Capital and reserves	<u>172,968</u>	<u>-</u>	<u>172,968</u>	<u>186,744</u>	<u>(75)</u>	<u>186,669</u>

	As previously stated 31 December 2018 £000	Effect of transition 31 December 2018 £000	FRS 101 (as restated) 31 December 2018 £000
Revenue	64,101	-	64,101
Cost of sales	(38,373)	265	(38,108)
Operating profit	25,728	265	25,993
Finance income	329	-	329
Finance expenses	(4,515)	(390)	(4,905)
Profit before taxation	21,542	(125)	21,417
Tax expense	(7,766)	50	(7,716)
Profit for the financial year	<u>13,776</u>	<u>(75)</u>	<u>13,701</u>

The changes to previously reported numbers are in relation to the adoption of IFRS 16 "Leases" and the re-presentation of the foreign exchange loss from Cost of sales to Finance expenses.

Notes to the Financial statements

For the year ended 31 December 2019 (continued)

First Time Adoption of FRS 101 (continued)

Adjustments Recognised on Adoption of IFRS 16

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of FRS 102. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2018. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2018, and on business combinations, was 5.9 percent.

The associated right-of-use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Practical Expedients Applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2018 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease