Chrysaor Limited

Registered Company Number 06418649

Annual Report and Financial Statements

31 December 2019

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Corporate information

Directors

Phil Kirk
Andrew Osborne

Secretary

Howard Landes

Independent Auditors

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Company No. 06418649

Strategic Report

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

Principal Activities and Review of the Business

Chrysaor Limited (the Company) is part of the Chrysaor group of companies, (the Group). The Group's ultimate parent company is Chrysaor Holdings Limited (CHL) and the ultimate controlling party is Harbour Energy Holdings Limited.

The Group's and Company's principal activities are the acquisition, exploration, development and production of oil and gas reserves on the UK Continental Shelf. Further information can be found in CHL's consolidated annual report and accounts for the year ended 31 December 2019 (the Group Report).

On 1 April 2019, the Company acquired a 1.8822 percent share in the North Everest field for a consideration, prior to working capital adjustments, of $1.3 million (£1.0 million), from fellow subsidiary Chrysaor North Sea Limited (CNSL), resulting in an overall 100 percent equity ownership for the Company.

Business Review

Operated Assets

The Group operates five complexes in the Central North Sea, which are run as three business units or hubs; the Armada, Everest and Lomond fields (all of which are owned 100 percent) comprise one hub, along with Erskine (controlled from Lomond) and following the acquisition of the ConocoPhillips UK business on 30 September 2019, the J-Area and Greater Britannia Area.

Everest

Following the acquisition mentioned above, the Company owns 100 percent of the equity in the North Everest field. The northern part of the field is produced through the North Everest facility. This is a combined wellhead, production and accommodation platform, producing gas and condensate, bridge-linked to the CATS (Central Area Transmission System) riser platform. Chrysaor Limited operates the CATS platform on behalf of the owners (Kellas Midstream Limited).

The installation also processes gas and condensate from the South Everest subsea wells located some 7.1 kilometres south of the North Everest production platform and Everest East Expansion (EEE) wells, located approximately 6.8 kilometres north-east. In 2019, a well intervention campaign including re-perforating and removing wellbore obstructions successfully increased production.

Looking ahead, a further infill development well within the EEE area has been identified, with drilling of the LAD well expected to spud in 2021, at the earliest.

A late life compression project was approved to reduce the inlet pressure of the North Everest process, increase recoverable reserves and extend field life. Re-wheeling of the main gas compressors on each process train will be executed through single train outages, with tie-ins completed in future shutdowns.

Maintenance and asset integrity plans have been reviewed to ensure asset integrity and equipment operability match end-of-field-life expectations. Asset life extension projects have been initiated to ensure safe and reliable operation of the facilities beyond their projected field life. These will be further developed and implemented in future shutdowns.

Everest produced 16.3 mboepd net in 2019 (2018: 14.2 mboepd).

Lomond

The Company owns 100 percent of the Lomond field and has a 32 percent equity in the tied-back Erskine field.

Lomond is a combined wellhead, production and accommodation quarters platform, processing gas and condensate from Lomond and the Ithaca-operated Erskine field. Production is exported

Strategic Report (continued)

via infield pipelines to the CATS riser platform at North Everest, from where it is exported to the Forties Pipeline System (FPS) and on to the CATS Terminal at Teesside.

Performance on the Lomond and Erskine processing module significantly improved in 2019 through a targeted improvement project. The Lomond liquid export pipeline (PL781) had not been effectively pigged since 2009, resulting in wax blockages. The pipeline was partially replaced and is now routinely pigged using a wax inhibitor with favourable results. An intelligent pigging programme was also completed on the liquid export pipeline.

A late-life compression project to reduce the inlet pressure of the Lomond process, increase recoverable reserves and extend field life has been deferred to 2021 to align with the deferred FPS shutdown due to Covid-19 impact.

Maintenance plans for Lomond will ensure asset integrity and equipment reliability match end of field life expectations. Asset life extension projects have been initiated to ensure safe and reliable operations beyond the projected end of field life date. The commissioning of an additional lifeboat in July, has allowed the platform personnel on board (POB) number to be increased from 63 to 79. The Company is looking to increase this to 95 for hydrocarbon-free periods to facilitate additional work during shutdowns.

The Company continues to develop and progress exploration and growth opportunities, which may further extend asset viability beyond current end of field life.

Lomond and Erskine together produced 12.5 mboepd net during 2019 (2018: 3.1 mboepd).

Non-Operated Assets

Armada

Armada is a combined wellhead, production and accommodation platform processing fluids from the Drake, Hawkins and Fleming gas and condensate fields, with UK Sector tiebacks to the SW and NW Seymour and the Maria fields. Also tied back to this installation is the third-party field Rev (Repsol Norge operated) in the Norwegian Sector.

Under the previous operator, the provisional plan for Armada was to cease production from June 2018, but the Company took the decision to extend the life of the field with additional development drilling and near-field appraisal.

The Maria Terrace well started production in February 2019. With the Crestal well, these two wells, although having been actively constrained as part of a well and reservoir management strategy, produced together at an average of 3 mboepd for the year. This resulted in a significantly higher total production for Armada.

Further opportunities have been matured and drilling was successfully and safely completed on Hawkins and Seymour Horst. Hawkins originally came on-stream in December 2019 and Seymour Horst is expected to commence in September 2020. An additional opportunity is being developed within the North West Seymour area with the possibility of drilling the next well in 2023.

Given the significant change in operational plans for the installation, the Company has reviewed its maintenance and asset integrity plans to ensure equipment reliability matches the new end of field life expectations. Asset life extension projects have been initiated to ensure safe and reliable operation of the facilities beyond the current projected end date. These will be further developed and implemented in future shutdowns.

In 2019, safety and environmental performance continued to be good and the installation completed five years without a lost workday case.

The Armada hub area fields produced 4.3 mboepd net in 2019 (2018: 1.3 mboepd).

Strategic Report (continued)

Beryl

The Company has a c.39.5 percent interest in the Beryl area. Beryl is operated by Apache, and the Company has equity interests in the Beryl, Buckland, Callater, Ness, Nevis, Skene and Storr fields and a range of exploration licences. Beryl was developed in three phases - the first two developed the oil reserves using a large concrete platform (Beryl Alpha) in the south with a smaller steel platform (Beryl Bravo) to the north. A separate riser platform bridge-linked to Beryl Alpha was installed in 1990 to deal with the third gas phase.

The Company works with the operator to identify and progress infill and near-field targets with a quick turnaround to production. Platform drilling continued in 2019 with two producers and one water injector being drilled on Alpha, and two producers on Bravo. One injector on Bravo was suspended due to wellbore instability issues, but there are already re-entry plans for 1H 2020. Another Bravo producer is expected to be online in 1Q 2020. Three well interventions were completed between both platforms with positive results. A back-to-back platform drilling sequence will see three additional targets being drilled on Bravo before moving back to Alpha in 3Q 2020.

The BK7 (BKA) Buckland field target was drilled, completed and brought online in August 2019. It has already recovered in excess of 1.4 mmboe gross. Storr Phase 1 Development SCN well was drilled and completed in 1H 2019. SCN was brought online in November and performance has been good. Testing of the Cormorant zone has been deferred to late-2020, which seeks to unlock further opportunities for appraising two additional field targets, Storr North and Storr South West in 1H 2021 and 1H 2022 respectively.

The Beryl Area exploration strategy continues in the Tertiary play, with the Solar well spudded in December 2019. This is the first of two wells to be drilled under a farm-in agreed in the first half of 2019 between Apache and Chrysaor Limited, which aligned equity with the main Beryl field removing commercial misalignment and facilitating drilling. The second well, targeting the Gamma trend area, spudded in August 2020.

A third Cormorant zone target on the Callater field, CC3, was brought online in July 2020. In the 32nd UK Licensing Round award application, The Company joined Apache with submissions for targets on both the Tertiary and Jurassic plays.

Operating efficiency continues to be good on both platforms despite outages and deferred turnaround (TAR) challenges. Bravo platform has been proactively managed to ease produced water handling issues, while constraining some high water cut producers. The Company is also supporting the operator over critical operations and HSEQ areas to improve long-term performance.

The Beryl Area produced 16.6 mboepd in 2019 (2018: 16.6 mboepd).

Bressay

The Bressay field is in Quad 9, east of Shetland. The Company has an 18 percent interest and the field is operated by Equinor. It contains a large potential resource if an economic solution to the heavy oil development can be found. Lessons from Equinor's Mariner project, another heavy oil development, could prove instructive and are being evaluated.

In July 2020, Equinor announced that it had agreed to sell a 40.8125% interest and transfer operatorship of the Bressay field to EnQuest, with an expected completion date of 4Q 2020.

Buzzard

The Company has a 21.7 percent interest in Buzzard, operated by CNOOC Petroleum Europe. Located in the Outer Moray Firth 100 kilometres north-east of Aberdeen, the field straddles

Strategic Report (continued)

licences P986 and P928 (Blocks 19 and 20). Buzzard's facilities comprise four bridge-linked steel platforms, which support wellhead and production facilities, utilities/living quarters, and a further Hydrogen Sulphide stripping (PS) platform.

A second issue with corrosion under insulation (CUI) was discovered within the P platform resulting in a 17-day outage in October. This was offset by an excellent first half to 2019.

Buzzard was exposed to Forties Pipeline System (FPS) restrictions in August. The operator conducted a 7-day turnaround (TAR) in September to cover safety critical equipment with all work carried out in the planned time period.

Buzzard's significant remaining reserves are being developed through two sanctioned infill drilling and subsea tie-back projects of the Northern area. The campaign started in 4Q 2018 from the wellhead platform, targeting multiple low-risk volumes within the main field. The first three wells were sanctioned together in the attic area of the field, exploring the up-dip extent of reservoir sands.

Wells four to five are targeting mid-dip bypassed reserves. The fourth well (B42) was completed mid December 2019 with sands found in the mid-dip pilot location. This is an important discovery in the life of Buzzard proving the concept of sweep bypass due to reservoir complexity. The final well in the campaign will be drilled by 3Q 2020.

Buzzard Phase 2 (BP2) subsea tie-back project has reached execution for development of new reserves in the Northern area of the field. Drilling began in April 2019 with first oil planned for December 2021. Drilling is on a batch schedule with completions on course to be finished in 3Q 2020. There have been two wells in the terrace that have been disappointing and are not commercial, however potential sidetracks are being reviewed post first production. Tie-ins will take place once the brownfield module for processing and export from Phase 2 wells has been be installed in mid-2021.

Buzzard produced 23.2 mboepd in 2019 (2018: 24.3 mboepd).

Elgin-Franklin

The Company has a 14.1 percent interest in the Elgin/Franklin fields and 14.7 percent in Glenelg, which together form the Elgin hub operated by Total. Elgin and Franklin are high-pressure, high-temperature (HP/HT) gas and condensate fields, which started production in 2001. They are located approximately 240 kilometres east of Aberdeen. Elgin was discovered in 1991 and Franklin in 1986. The Elgin hub facilities consist of a production, utilities and quarters (PUQ) platform at Elgin, bridge-linked to two wellhead platforms; a tied-back wellhead platform at Franklin, situated five kilometres south of Elgin and another wellhead platform at the West Franklin satellite field.

The Elgin/Franklin infill drilling campaign continues with drilling on Franklin into 2021. Drilling operations finished at the West Franklin platform in September 2019 having completed one Elgin infill well and a perforation campaign on two West Franklin wells. It is anticipated that drilling will recommence on the next Elgin infill well, EIG, which is expected to spud in November 2020.

Elgin/Franklin continued with strong uptime and well performance in 2019 producing 16.4 mboepd net during the year (2018: 16.5 mboepd).

J-Area

Through acquisition in 2019, the Group now holds a 67 percent equity in the Judy/Joanne and Jasmine fields (previously 36.5 percent) and 67.5 percent in the Jade field (previously 32.5 percent).The Company has a range of equity interest (between 30-35 percent) in the J-Area

Strategic Report (continued)

which is operated by fellow Group company Chrysaor Petroleum Company U.K. Limited. J-Area operating efficiency was robust, producing 16.0 mboepd during the year (2018: 16.4 mboepd).

Judy/Joanne

Commercial oil production and natural gas sales began in 1997. Gas processed on the Judy platform is transported through the CATS pipeline, with oil processing and transportation from Judy to Teesside by way of the J-Area owned spur-line, connecting to the Norpipe pipeline and terminal.

In 2013, a new bridge-linked Judy Riser Platform (JURP) was installed as part of the Jasmine development. The JURP provides additional Judy well slots and hosts the high-pressure processing facilities for the Jasmine field.

In 2019, J-Area achieved a high operating efficiency, retaining top quartile UKCS performance. Its three-yearly major shutdown completing all safety and business critical scopes was carried out in just 44 days. Production optimisation and enhancement was delivered through targeted well interventions and the next phase of the J-Area suction pressure reduction programme.

2020 activities will focus on maintaining high reliability and modifying existing facilities to enable a Talbot appraisal and potential development project. Preparations will also start for the Judy infill drilling campaign, scheduled to follow the 2021 Jade campaign. The plan is to drill four infill wells from the JRP to flow through the existing Judy infrastructure.

Jasmine

Jasmine lies approximately six miles west of the Judy production facility. It comprises a Jasmine Wellhead platform (JWHP) and the Jasmine Living Quarters platform (JLQ), bridge-linked to the JWHP. Hydrocarbons are produced via a multiphase pipeline from the JWHP to the Judy Riser Platform (JURP) for processing.

In 2019, new incremental production was delivered via the Jasmine infill drilling programme. 2019 saw completion of the Jasmine S7 well workover, Joanne North development well and the Merida exploration well with associated exploration success. Ongoing drilling operations continue, with the J16x well expected to come on-stream early in 2021.

The development drilling programme is premised to continue through the next two years, with a further two wells to be developed from the JWHP and exploration of the Dunnottar prospect. Infill drilling targets across the J-Area continue to be matured throughout 2019 and 2020, as part of the hub-led infrastructure development strategy.

The Dunnottar exploration prospect was acquired following the 30th Licensing Round awards. The joint-venture partners for Dunnottar are the same as Judy and Joanne, with the Company holding a 36.5 percent equity.

Jade

The Jade field, which came onstream in 2002 is a normally unmanned installation located approximately 17 kilometres north of the Judy platform. Hydrocarbons are produced via a multiphase pipeline from the Jade to the Judy platform for processing.

Targeted well intervention in 2019 led to an increase in Jade production volumes. Development plans continue to be matured for an infill and exploration drilling well programme on Jade.

Strategic Report (continued)

Talbot

The Talbot discovery is a light-oil and associated gas resource opportunity located approximately 14 kilometres south-east of the Judy platform. The Talbot licence was acquired in October 2018 following the 30th Licensing Round. The joint venture partners are the same as Judy and Joanne, with Chrysaor Limited holding a 30.5 percent equity stake. The Front-End Engineering Design (FEED) milestone for a Talbot development was approved in 4Q 2019 and procurement of long-lead development items commenced. Appraisal and potential development sanction of Talbot is planned for mid-2022 as a multi-well subsea tie-back to the Judy platform.

Schiehallion

The Company has a 10 percent interest in the Schiehallion field operated by BP. Schiehallion was first developed in the mid-1990s and has produced over 300 million barrels of oil since start-up in 1998. The major Quad 204 re-development project delivered the *Glen Lyon FPSO* to the field in 2017 with extensive additional subsea infrastructure to unlock significant reserves and extending field life to the 2040s.

The focus in 2019 was to actively work through, mitigate the topsides constraints, and run the facility to its full capacity. A separate task force was set-up to resolve sand management and produced water constraints and to protect and maximise medium and long-term production targets.

The Company will continue to support the operator in 2020 to optimise short-term production and utilise the contracted drilling rig as best as possible which was put on standby in August 2020 having completed all planned work to date.

Schiehallion produced 7.2 mboepd net in 2019 (2018: 8.5 mboepd).

Financial performance and position

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

Production and Revenue

Production for 2019 averaged 113 mboepd compared to 96 mboepd during 2018.

A certain amount of the Company's hydrocarbon production is sold under fixed priced contracts, as described below under derivative financial instruments. The remainder is sold at market values subject to standard quality and basis adjustments.

Total revenue earned from production amounted to $1,998.1 million (2018: $1,808.9 million), with crude oil sales amounting to $1,386.6 million (2018: $1,220.0 million), gas revenue of $482.0 million (2018: $447.1 million), and condensate sales and liquefied petroleum gas sales of $129.5 million (2018: $141.8 million). Tariff income was $13.0 million (2018: $14.2 million).

Operating Profit

An operating profit of £786.1 million was recognised during the year (2018: £1,163.1 million).

Cost of sales for the year totalled $1,157.7 million (2018: $1,050.3 million) which included depreciation, depletion and amortisation (DD&A) charges on oil and gas assets of $681.5 million (2018: $572.2 million) and a charge of $20.1 million (2018: $49.8 million) in respect of movements in overlift/underlift and movement in hydrocarbon inventories.

During the year, the Company expensed $0.9 million on exploration and appraisal activities (2018: $9.9 million), comprising $0.2 million (2018: $9.8 million) of licence relinquishments and uncommercial well evaluations and $0.7 million (2018: $0.1 million) of pre-licence expenditure.

Strategic Report (continued)

The Company recognised a loss of $61.0 million (2018: credit of $408.8 million) in relation to fair value movements in commodity derivatives as a result of changes in future commodity prices.

A credit of $0.6 million (2018: charge of $0.5 million) was recognised in respect of fair value changes in potential contingent consideration as a result of the Shell acquisition from the vendor, linked to higher sustained future commodity prices and exploration success in Beryl and J-Area.

The Company retains an interest in a royalty stream resulting from the disposal of a pre-production development in 2015. A $2.4 million credit (2018: credit of $1.3 million) was recognised in the year relating to the re-measurement of the future value attributed to this royalty stream.

General and administration expenses for the year amounted to $8.4 million (2018: $9.5 million).

Net Financing Costs

Net financing costs for the year totalled $123.2 million (2018: $129.8 million), including intercompany interest expenses of $61.4 million (2018: $102.4 million), intercompany interest receivable of $14.2m (2018: $nil). In addition, net financing costs also include bank facility fees of $34.7 million (2018: $36.9 million), foreign exchange losses of $3.6 million (2018: gain of $47.4 million) and the unwinding of discount (primarily associated with future decommissioning provisions) of $36.7 million (2018: $37.7 million). Other net interest payable, which includes a lease interest charge of $0.6 million (2018: nil) associated with lease creditors recognised on adoption of IFRS 16 Leases (see note 11), totals $1.0 million (2018: payable $0.2 million).

Taxation

Taxation expense amounted to $245.6 million (2018: $385.4 million), split between the current tax expense of $115.5 million (2018: credit of $1.6 million) and a deferred tax expense of $130.1 million (2018: $387.1 million).

Profit for the financial year

Profit for the financial year was $417.3 million (2018: $647.9 million).

Capital expenditure

During the year, the Company incurred capital spend across its operated and non-operated assets of $38.1 million (2018: $21.4 million) and $337.6 million (2018: $308.8 million) million in relation to exploration and evaluation assets and property plant and equipment respectively.

Acquisitions

On 1 April 2019, the Company acquired a 1.8822 percent share in the North Everest field for a consideration, prior to working capital adjustments, of $1.3 million (£1.0 million), from fellow subsidiary Chrysaor North Sea Limited (CNSL), resulting in an overall 100 percent ownership for the Company.

The carrying amount of the assets and liabilities acquired by the company were $6.2 million of property, plant and equipment on oil and gas assets, ($7.2 million) of net working capital balances and a ($4.9 million) decommissioning provision.

Derivative Financial Instruments

Fellow subsidiary Chrysaor E&P Finance Limited (CEPFL) on behalf of the Company enters into a combination of fixed price physical sales contracts and cash-settled financial commodity derivatives to manage the price risk associated with Company's underlying oil and gas revenues. Consecutive ('back to back') agreements were put in place for the derivative contracts with the Company. This hedging activity ensures that the Company is compliant with the requirements of the Reserve Based Loan (RBL) facility and ensures that there is sufficient funding for future Group investments.

Strategic Report (continued)

At 31 December 2019, the Company's financial hedging programme showed a positive fair value of $309.9 million (2018: $345.2 million). These balances are included within amounts owed by fellow subsidiary undertakings in notes 14 and 15 due to the back to back agreements with Chrysaor E&P Finance Limited.

Balance Sheet and Capital Structure

At 31 December 2019, the balance sheet showed net assets of $963.9 million (2018: $547.1 million), consisting of non-current assets of $4,867.5 million (2018: $4,395.7 million), net current assets of $154.2 million (2018: net current liabilities of $39.5 million) and non-current liabilities of $4,057.8 million (2018: $3,809.1 million).

Total equity balance of $963.9 million (2018: $547.1 million) consists of retained earnings of $969.1 million (2018: $552.3 million) and a deficit on currency translation reserves of $5.2 million (2018: $5.2million).

Insurance

The Company undertakes a significant and appropriate range of insurance programmes to minimise the risk to its operational and investment programmes, which includes business interruption insurance.

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 and are reflected in the financial performance and position above.

Principal Risks and Uncertainties

The Company is subject to a range of risks, these risks are identified and manged 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.

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 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:

Andrew Osborne
Phil Kirk

Secretary

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

Howard Landes

Results and Dividends

The profit for the financial year amounted to $417.3 million (2018: $647.9 million). The directors do not recommend the payment of a dividend (2018: $nil).

Financial Instruments

The Company finances its activities with a combination of intercompany loans, cash and short-term deposits. 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.

CEPFL, on behalf of the Company, entered into a combination of fixed price physical sales contracts and cash-settled financial commodity derivatives during the year to manage the price risk associated with Company's underlying oil and gas revenues. Back to back agreements were put in place for the derivative contracts with the Company. The fair value movements during the year relating to the back to back agreements are disclosed within these financial statements.

Future Developments

Future activities will include the continuation of operating and developing the Company's existing licences will look for further transactions to enhance the Company's portfolio and bring added longevity and development opportunities to the Company.

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' Report (continued)

Wates Principles

The Chrysaor group adopted the Wates Corporate Governance Principles for large private companies. Further information can be found in the Group Report.

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.

Going Concern

The Company is part of the Group. After making enquires, including a review of cashflow forecasts and sensitivities for the Group, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for a period of at least 12 months from the date of signing these financial statements. Accordingly, the Directors have adopted the going concern basis of accounting for the preparation of the 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 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. 06418649

Statement of Directors' Responsibilities

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 Limited

Report on the audit of the financial statements

Opinion

In our opinion, Chrysaor 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Income Statement, the Statement of Comprehensive Income, 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

Independent auditors' report to the members of Chrysaor Limited (continued)

a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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 13, 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 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

	Note	2019 $000	2018 $000
Revenue	3	2,011,183	1,823,166
Cost of sales		(1,157,701)	(1,050,319)
Gross profit		853,482	772,847
Exploration & Evaluation expenditure	4	(724)	(54)
Exploration costs written off	4	(163)	(9,838)
Re-measurements	4	(58,074)	409,643
General and administrative costs		(8,393)	(9,497)
Operating profit		786,128	1,163,101
Finance income	6	14,256	47,452
Finance expenses	6	(137,479)	(177,242)
Profit before taxation		662,905	1,033,311
Tax expense	7	(245,622)	(385,414)
Profit for the financial year		417,283	647,897

Statement of Comprehensive Income

		2019 $000	2018 $000
Profit for the financial year		417,283	647,897
Items that may be classified to income statement in subsequent periods			
Deferred tax arising from common control acquisition	7	(505)	(155,358)
Other comprehensive expense for the financial year, net of tax		(505)	(155,358)
Total comprehensive income for the financial year		416,778	492,539

The notes on pages 20 to 48 form part of these financial statements.

Balance Sheet

As at 31 December

	Note	2019 $000	2018 $000
Non-current assets			
Goodwill	8	413,859	413,859
Exploration and evaluation assets	9	41,118	43,580
Property, plant and equipment	10	3,406,700	3,669,892
Right of use asset	11	9,401	-
Other financial assets	14	996,421	268,408
Total non-current assets		4,867,499	4,395,739
Current assets			
Inventories	13	89,746	83,851
Debtors: amounts falling due within one year	15	1,061,573	693,970
Cash and cash equivalents	16	5	12
Total current assets		1,151,324	777,833
Total assets		6,018,823	5,173,572
Current liabilities			
Creditors: amounts falling due within one year	18	(982,716)	(782,275)
Lease Creditor	21	(1,933)	-
Other financial liabilities	22	(12,495)	(35,078)
Total current liabilities		(997,144)	(817,353)
Non-current liabilities			
Creditors: amounts falling due after more than one year	19	(1,746,494)	(1,697,262)
Provisions	20	(1,360,077)	(1,295,908)
Deferred tax	7	(942,321)	(811,699)
Lease Creditor	21	(8,935)	-
Other financial liabilities	22	-	(4,276)
Total non-current liabilities		(4,057,827)	(3,809,145)
Total liabilities		(5,054,971)	(4,626,498)
Net assets		963,852	547,074
Capital and reserves			
Called up share capital	23	-	-
Currency translation reserve		(5,221)	(5,221)
Retained earnings		969,073	552,295
Total equity		963,852	547,074

The notes on pages 20 to 48 form part of these financial statements.

The financial statements on pages 17 to 48 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: 06418649

Statement of Changes in Equity
For the year ended 31 December

	Called Up Share capital *$000*	*Currency translation reserve* *$000*	*Retained earnings* *$000*	*Total equity* *$000*
At 1 January 2018	-	(5,221)	59,756	54,535
Profit for the financial year	-	-	647,897	647,897
Other comprehensive expense	-	-	(155,358)	(155,358)
At 31 December 2018	-	(5,221)	552,295	547,074
Profit for the financial year	-	-	417,283	417,283
Other comprehensive expense	-	-	(505)	(505)
At 31 December 2019	-	(5,221)	969,073	963,852

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 the 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 in England 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, except for certain financial assets and liabilities (including derivative financial instruments) which have been measured at fair value, and are 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 US Dollars and all values are rounded to the nearest thousand dollars ($000) except when otherwise stated.

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

(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.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

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 Group 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 Group 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 US Dollars.

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.

Acquisition of Interests in Joint Operations (not under common control)

The acquisition of interests in joint operations in which the activity constitutes a business are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the date of completion of the acquisition. Acquisition costs incurred are expensed and included in administrative expenses. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at acquisition.

The identifiable assets, liabilities and contingent liabilities acquired that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively
- liabilities or equity instruments related to the replacement by the Company of an acquirer's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and discontinued operations are measured in accordance with that Standard.

If the initial accounting for the acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised to reflect new information obtained

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date, subject to a maximum of one year.

Acquisition of Interests in Joint Operations (under common control)

Business combinations and the acquisition of interests in joint operations under common control are not included within the scope of IFRS 3 and therefore, the Company has applied what it sees as the most appropriate method of accounting for these transactions. The Company uses the pooling of interests method which involves the following:

- reflects the value of the assets and liabilities of the acquired interests at their carrying amounts on the date of acquisition
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities at the date of the combination that would otherwise be done under the acquisition method under IFRS 3;
- No 'new' goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to either of the combining parties
- Any difference between the consideration transferred and the acquired net assets is reflected within equity; and
- No restatement of periods prior to the acquisition. The acquiring entity accounts for the combination prospectively from the date on which it occurred.

Goodwill

In the event of an acquisition of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, the acquisition method of accounting is applied. Goodwill represents the difference between the aggregate of the fair value of purchase consideration transferred at the acquisition date and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment.

Goodwill, as disclosed in note 8, is reviewed for impairment at least annually by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the carrying amount of the cash generating unit and related goodwill is higher than the recoverable amount of the cash generating unit, an impairment loss is recognised.

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 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.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

(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.

(d) Farm-Outs - in the Exploration and Evaluation Phase

The Company does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but re-designates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

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. Until the adoption of IFRS 16 Leases, the capitalised value of a finance lease was included within property, plant and equipment within the Company's financial statements. Please refer to note 21 for further information on the IFRS 16 adoption.

All costs relating to a development are accumulated and not depreciated until the commencement of production. 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.

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 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 (Excluding Goodwill)

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
- 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

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

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. Derivative Financial Instruments

Derivative financial instruments are initially recognised and subsequently re-measured at fair value. Certain derivative financial instruments are designated as cash flow hedges in line with the Company's risk management policies. When derivatives do not qualify for hedge accounting or are not designated as accounting hedges, changes in the fair value of the instrument are recognised within the Income statement.

d. 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.

Currency Translation Reserve

This reserve comprises exchange differences arising on the change of functional currency of the Company.

Inventories

Hydrocarbon inventories are stated at fair value less cost to sell with movements recognised in the income statement (see Over/underlift section on page 27). 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.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

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.

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.
- 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 be 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.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

Over/Underlift

Revenues from the production of oil and natural gas properties in which the Company has an interest with partners are recognised based on the Company's working interest in those properties (the entitlement method). Differences between the production sold and the Company's share of production result in an overlift or an underlift. Overlift and underlift are valued at market value and included within payables or receivables respectively. Movements during the accounting period are recognised within cost of sales in the income statement such that gross profit is recognised on an entitlement basis.

Interest Income

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective assets.

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. Transition to IFRS 16 was made in accordance with the modified retrospective approach and therefore, the prior year figures have not been adjusted.

As part of the project conducted on initial application, the Company 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 2019, 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 2019, 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 2019 was 5.9 percent. 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.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

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 IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. This amendment is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, and to asset acquisitions that occur on or after the beginning of that period. Application of this amendment will be effective post EU endorsement.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

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 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.' This amendment is effective after the beginning of the first annual reporting period beginning on or after 1 January 2020.

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

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

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 percent increase in the cost estimates used to assess the final decommissioning obligation would result in an increase to the decommissioning provision of approximately $209 million. This change would be principally offset by a change to the value of the associated asset.

- *Acquisition of Interests in Joint Operations*

The fair value of net assets acquired when purchasing joint interest are primarily determined using discounted cash flow techniques using available data at the time of the acquisition. For oil and gas assets, the Company estimates future cash flows from the economically recoverable reserves and discounts them to present value using a rate reflecting market assessments of the time value of money and risks specific to the asset. Determining the fair value of oil and gas assets requires the Company to apply long term assumptions of commodity prices.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

3. Revenue

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

	2019	*2018*
	$000	*$000*
Crude oil sales	1,386,619	1,219,987
Gas sales	482,000	447,142
Condensate and liquefied petroleum gas sales	129,471	141,777
Other sundry sales	44	140
Tariff income	13,049	14,120
	2,011,183	1,823,166

Revenues of $1,873.1 million (2018: $1,872.0 million) were from contracts with customers. This was increased by realised hedging gains on crude and gas sales in the year of $138.1 million (2018: losses of $48.8 million). Approximately 96 percent (2018: 95 percent) of the revenues were attributable to energy trading companies of the Shell group.

4. Operating Profit

This is stated after charging/(crediting):

	2019	*2018*
	$000	*$000*
Depreciation- oil and gas producing assets	681,456	576,782
Credit due to reduction in decommissioning provision	-	(4,590)
Movement in over/under-lift balances and hydrocarbon inventories	20,062	49,786
Exploration & evaluation expenditure	724	54
Exploration costs written off	163	9,838
Re-measurement of royalty valuation	(2,400)	(1,327)
Re-measurement of contingent consideration for commodity price	7,198	734
Re-measurement of exploration contingent consideration	(7,773)	(217)
Re-measurement of derivatives	61,049	(408,833)
Auditors' remuneration - audit of the financial statements	129	93

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)

Operating Profit (continued)

During 2015, the Company sold its entire interest in a pre-production development. Part of the consideration received was a beneficial interest in a royalty agreement. The re-measurement of this interest represents the updated valuation of the contingent consideration in respect of the royalty payments due to the Company (notes 14 and 15).

During 2017, the Company acquired a package of assets in the UK North Sea from Shell. The transaction includes provisions for additional payments to the sellers of up to \$600 million and consideration refundable from the sellers of up to \$100 million, dependent on future commodity prices over the four-year period ending 31 December 2021. These contingent payments and receipts represent derivative instruments, the re-measurement of which is recognised through the income statement.

CEPFL, on behalf of the Company entered into a combination of fixed price physical sales contracts and cash-settled financial commodity derivatives during the year to manage the price risk associated with the Company's underlying oil and gas revenues. Back to back agreements were put in place for the derivative contracts with the Company. The Company incurred a loss of \$61.0 million (2018: gain of \$408.8million) due to the fair value movement on these back to back derivatives. An amount of \$179.1 million (2018: \$233.5 million) is included as a receivable within amounts due from fellow subsidiary undertakings in more than one year (notes 14) and \$130.8 million (2018: \$111.7 million) is included as a receivable within amounts due from fellow subsidiary undertakings in less than one year (note 15).

5. Staff Cost and Directors' Remuneration

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

	2019	*2018*
Directors' remuneration	*\$000*	*\$000*
Directors' remuneration	1,952	2,215
Payments made in lieu of pension contributions	171	179
Pension	20	25
	2,143	2,419

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 (CEPSL). 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	*2018*
	\$000	*\$000*
Directors' remuneration	1,114	1,286
Payments made in lieu of pension contributions	101	105
Pension	10	12
	1,225	1,403

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

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

6. Finance Income and Finance Expenses

	2019	2018
	$000	$000
Finance income		
Other interest receivable	75	94
Foreign exchange gain	-	47,358
Intercompany interest on other loans	14,181	-
	14,256	47,452
Finance expenses		
Intercompany interest expense on bank loans	(60,727)	(99,914)
Intercompany interest on other loans	(687)	(2,511)
Bank and financing fees	(34,717)	(36,868)
Unwinding of discount on decommissioning provisions (note 20)	(36,690)	(36,606)
Unwinding of discount on contingent consideration (note 20)	(83)	(147)
Unwinding of discount on deferred consideration	-	(925)
Other interest payable	(382)	(271)
Lease interest payable	(625)	-
Foreign exchange loss	(3,568)	-
	(137,479)	(177,242)
Net Finance expenses	(123,223)	(129,790)

The intercompany interest expense on bank loans relates to the pass through of the interest charged on the Reserves Based Loan (RBL) from fellow subsidiary CEPFL.

Intercompany interest on other loans represents interest passed though from CEPFL which arose from the financing arrangement entered into during 2018 on behalf of the Company. The financing arrangement is with Baker Hughes and covers a 3-year work programme for drilling, completion and subsea tie-in of development wells on a number of the Company's assets. As part of the deal, BHGE contribute to the costs of the work programme by funding a portion of the capital expenditure, in exchange for a higher potential return should certain targets and success criteria, both operational and geological, be met. Interest on this financing arrangement has been calculated using the effective interest method with reference to the expected cash flows, using an estimated reserve case.

Bank and financing fees include an amount of $11.2 million (2018: $17.3 million) relating to the amortisation of transaction costs capitalised against long-term borrowings which has been passed through to the Company along with the borrowings as part of the intercompany loan with CEPFL.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

7. Tax Expense

(a) Tax expensed in the income statement

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

	2019 $000	2018 $000
Current income tax:		
UK corporation tax	109,972	17
Amounts under/(over) provided in previous year	5,533	(1,662)
Total current income tax expense/(credit)	115,505	(1,645)
Deferred tax:		
Origination and reversal of temporary differences	142,875	372,739
Amounts (over)/under provided in previous year	(12,758)	14,322
Total deferred tax expense	130,117	387,059
Tax expense in the income statement	245,622	385,414

(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	2018 $000
Profit before taxation	662,905	1,033,311
Tax calculated at UK standard rate of corporation tax for UK ring-fence companies of 40% (2018: 40%)	265,162	413,324
Effects of:		
Items not allowable for tax purposes	(876)	199
Adjustments recognised for current tax of prior periods	(7,225)	12,658
Interest not deductible for supplementary charge	(11,474)	9,263
Ring fence expenditure supplement	-	(24,877)
Transfer pricing adjustment	(2,756)	-
Investment allowance	-	(25,133)
Effects of group and other reliefs	1,910	-
Recognition of previously unrecognised losses	892	-
Impact of losses relieved at different rates	(11)	(20)
Total tax expense reported in the income statement	245,622	385,414

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

Tax Expense (continued)

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

	Accelerated Capital Allowances $000	*Abandonment $000*	*Investment Allowance $000*	*Losses $000*	*Fair value on derivatives $000*	*Total $000*
As at 1 January 2018	(1,453,009)	528,059	-	627,320	25,370	(272,260)
Deferred tax credit/(expense)	207,398	(93,638)	31,321	(368,398)	(163,742)	(387,059)
Disposal of asset	(155,358)	-	-	-	-	(155,358)
Acquisition accounting	(8,198)	11,176	-	-	-	2,978
At 31 December 2018	(1,409,167)	445,597	31,321	258,922	(138,372)	(811,699)
Deferred tax credit/(expense)	46,292	91,617	(31,321)	(258,922)	22,217	(130,117)
Acquisition accounting	(2,482)	1,977	-	-	-	(505)
At 31 December 2019	(1,365,357)	539,191	-	-	(116,155)	(942,321)

Deferred tax assets are recognised to the extent that the future benefit from the underlying tax losses carried forward is probable. Relevant tax law is considered as to the availability of the tax losses to offset future income. To determine the future taxable income from which the losses may be deducted, reference was made to the profit forecasts for the Group as at 31 December 2019. These profit forecasts showed sufficient future taxable income to recognise the deferred tax asset.

The deferred tax asset recognised is fully offset by the deferred tax liability, resulting in an overall net deferred tax liability.

The Company has non-trading tax losses of $2.2 million (2018: $nil) that may potentially be available for offset against future taxable non-trading profits. An associated deferred tax asset of $0.9 million (2018: $nil) has not been recognised in respect of these losses as they may not be used to offset future taxable profits due to uncertainty of recovery.

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 percent 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. Goodwill

	$000
At 31 December 2018 and 31 December 2019	413,859

Goodwill represents the difference between the aggregate of the fair value of purchase consideration transferred at the acquisition date and the fair value of the identifiable assets.

The goodwill balance arose during 2017 on the acquisition of the UK North Sea assets from Shell which completed on 1 November 2017. On 1 June 2018, the Company acquired equity in the Armada, Maria and Seymour fields from Spirit Energy and as a result, $2.9 million of goodwill was recognised. During 2018, the Company agreed the final completion statement with Shell which reduced goodwill by $10.3 million.

Goodwill acquired through acquisitions of interests in joint arrangements has been allocated to a single cash generating unit (CGU), the UK Continental Shelf (UKCS), and this is therefore the lowest level at which goodwill is reviewed for impairment.

The Company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. At the year end the Company tested for impairment in accordance with accounting policy and no impairment was identified.

9. Exploration and Evaluation Assets

	Exploration & Evaluation assets $000
At 1 January 2019	43,580
Additions	38,135
Transfer to producing assets	(39,002)
Transfers to fellow group companies	(1,429)
Amounts written-off	(166)
At 31 December 2019	41,118

Unsuccessful exploration written-off relates to costs associated with licence relinquishments and uncommercial well evaluations.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

10. Property, Plant and Equipment

	Oil & gas development & production assets
	$000
Cost:	
At 1 January 2019	4,333,711
Additions	337,623
Acquisition of interests in joint arrangements	6,204
Transfer of Exploration and Evaluation Assets	39,002
Increase in decommissioning asset	35,435
At 31 December 2019	4,751,975
Accumulated Depreciation:	
At 1 January 2019	663,819
Charge for the year	681,456
At 31 December 2019	1,345,275
Net book value:	
At 31 December 2019	3,406,700
At 31 December 2018	3,669,892

Information on the acquisition of interests in joint arrangements can be found in note 12.

An increase of $35.4 million to decommissioning assets was recognised in the year, including $28.4m in respect of new decommissioning liabilities and $7.0 million as a result of an update to decommissioning estimates (note 20).

11. Right of Use Assets

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

Right of Use Assets	*2019*	*2018*
	$000	*$000*
Land and buildings	9,401	-

In previous years, the Company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17, 'Leases'.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

Right of Use Assets (continued)

Lease Liabilities (see note 21)	*2019*	*2018*
	$000	*$000*
Current	1,933	-
Non-Current	8,935	-
	10,868	-

Additions to the right-of-use assets during the 2019 financial year were $nil.

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

Depreciation charge of Right of Use Assets

	2019	*2018*
	$000	*$000*
Land and buildings	1,199	-

	2019	*2018*
	$000	*$000*
Lease interest (included in finance expenses - note 6)	625	-

The total cash outflow for leases in 2019 was $0.8 million.

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

The Company leases an office in Aberdeen with a fixed period of five years. The five-year fixed period has extension options of up to 10 years. Until the 2018 financial year, this lease was classified as an operating lease and payments made under this lease (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 2019, 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.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

Right of Use Assets (continued)

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)

12. Acquisition of Interests in Joint Arrangements

Acquisition of interests in joint arrangements during the year ended 31 December 2019

(a) North Everest acquisition

The Company purchased a 1.8822% share in the North Everest field from fellow subsidiary CNSL on 1 April 2019, resulting in the Company owning 100% of the field. The consideration payable by the Company to CNSL, prior to any working capital adjustments, was $1.3 million (£1.0 million). The consideration was adjusted for working capital liabilities of $7.2 million (£5.5 million) in relation to the acquired interest as at the completion date, resulting in an amount due to the Company from CNSL of $5.9 million (£4.5 million). The acquisition has been accounted for as a common control acquisition of interests in joint arrangements, using the pooling of interest method. The carrying amount of the assets and liabilities acquired by the Company were:

	Total
	$000
Property, plant and equipment - oil and gas assets	6,204
Inventories	20
Trade and other receivables	831
Trade and other payables	(8,063)
Provision for decommissioning	(4,941)
Fair value of identifiable net assets acquired	(5,949)

From the date of acquisition, the business contributed $2.6 million of revenue and $0.3 million towards the profit before tax of the Company. Had the acquisition been affected at 1 January 2019, the business would have contributed revenue of $3.3 million in the year to 31 December 2019, and $0.4 million towards profit before tax.

Acquisition of interests in joint arrangements during the year ended 31 December 2018

(a) Elgin-Franklin acquisition

On 10 April 2018, the Company acquired a 14.1% interest in the Elgin-Franklin hub from fellow subsidiary, CNSL for $404.3 million (£288.4 million). This has been accounted for as a common control acquisition of interests in joint arrangements, using the pooling of interest method. The carrying amount of the assets and liabilities acquired by the company were:

	Total
	$000
Property, plant and equipment - oil and gas assets	562,735
Inventories	14,116
Trade and other receivables	14,462
Trade and other payables	(12,710)
Provision for decommissioning	(174,340)
Fair value of identifiable net assets acquired	404,263

From the date of acquisition, the business contributed $205.9 million of revenue and $130.1 million to the profit before tax of the Company. Had the acquisition been affected at 1 January 2018, the business would have contributed revenue of $283.5 million in the year to 31 December 2018, and $176.7 million towards profit before tax.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

Acquisition of Interests in Joint Arrangements (continued)

(b) Armada hub assets acquired from Spirit Energy

On 1 June 2018, the Company acquired equity in Armada, Maria and Seymour fields from Spirit Energy and as a result, the Group now holds 100% in the Armada hub assets.

The fair values of the net identifiable assets acquired from the transaction are as follows:

	Total
	$000
Property, plant and equipment - oil and gas assets	20,495
Inventories	85
Trade and other receivables	6,936
Trade and other payables	(5,136)
Deferred tax	2,978
Provision for decommissioning	(27,941)
Fair value of identifiable net liabilities acquired	(2,583)
Cash consideration	360
Goodwill recognised	2,943

From the date of acquisition, the business contributed $13.8 million of revenue and $1.3 million of a loss to the profit before tax from continuing operations of the Company. Had the acquisition been affected at 1 January 2018, the business would have contributed revenue of $22.3 million in the year to 31 December 2018, and a loss of $4.3 million towards profit before tax.

13. Inventories

	2019	*2018*
	$000	*$000*
Hydrocarbons	32,586	17,972
Consumables and subsea supplies	57,160	65,879
	89,746	83,851

Hydrocarbon inventories are measured at net realisable value. Inventories of consumables and subsea supplies include a provision of $9.7 million (2018: $2.2 million) where it is considered that the net realisable value is lower than the original cost.

Inventories recognised as an expense during the year ended 31 December 2019 amounted to $6.7 million (2018: $3.5 million).

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

14. Other Financial Assets

	2019	2018
	$000	$000
Royalty consideration	9,100	9,700
Deferred expenses	23,961	25,243
Amounts owed by immediate parent undertaking	784,212	-
Amounts owed by fellow subsidiaries	179,148	233,465
	996,421	268,408

Part of the consideration received on the sale of the Company's interest in a pre-production development in 2015 was a royalty interest, which is recognised on the balance sheet as a financial asset. At 31 December 2019, the Company valued the outstanding consideration receivable at $12.1 million (2018: $12.7 million) of which $3.0 million (2018: £3.0 million) is considered to be receivable within one year (refer to note 15).

All amounts owed by fellow subsidiary undertakings are unsecured, interest free and are repayable on demand.

15. Debtors: Amounts falling due within one year

	2019	2018
	$000	$000
Royalty consideration (note 14)	3,000	3,000
Trade debtors	79,123	68,131
Under-lift position	11,295	18,132
Amounts owed by fellow subsidiaries	895,792	437,107
Loan amounts owed by fellow subsidiaries	12,623	12,151
Amounts owed by ultimate parent undertaking	604	586
Amounts due by fellow subsidiaries in respect of taxation	-	17,685
Corporation tax receivable	2,996	-
Other debtors	2,107	15,430
Deferred expenses	6,251	16,194
Prepayments and accrued income	47,782	105,554
	1,061,573	693,970

Trade receivables are non-interest bearing and are generally on 20 to 30 days' terms. As at 31 December 2019, no ECLs have been recognised relating to the trade receivables (2018: $nil). All amounts owed by parent and subsidiary undertakings are unsecured, interest free and are repayable on demand.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

16. Cash and Cash Equivalents

	2019 $000	2018 $000
Cash at bank and in hand	5	12

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.

17. Commitments

Capital commitments

As at 31 December 2019, the company had placed contracts for capital expenditure amounting to $382,851,000 (2018: $434,490,000). 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.

18. Creditors: Amounts falling due within one year

	2019 $000	2018 $000
Trade creditors	49,807	15,466
Over-lift position	64,820	32,316
Amounts owed to fellow subsidiaries	441,251	558,633
Amounts owed to immediate parent undertaking	267,501	1
Amounts owed to ultimate parent undertaking in respect of taxation	3,804	18
Amounts owed to fellow subsidiaries in respect of taxation	10,512	-
Other creditors	480	-
Accruals and deferred income	144,541	175,841
	982,716	782,275

Included in amounts owed to fellow subsidiaries is the short-term element of a loan balance amounting to $nil (2018: $88.9 million) in relation to the junior debt facility entered into by fellow subsidiary CEPFL (see note 19 for further details). This loan was passed through to the Company to fund the acquisition of the Shell assets in 2017.

Also included in amounts owed to fellow subsidiaries is the short-term element of a loan balance of $0.6 million (2018: $14.7 million) in respect of a financing agreement between CEPFL and BHGE. See note 6 for further details. This loan was passed through to the Company.

Other intercompany balances

The remaining intercompany balances due to group undertakings which are unsecured, interest free and are repayable on demand.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

19. Creditors: Amounts falling due after more than one year

	2019 $000	2018 $000
Loans owed to fellow subsidiary undertakings	861,301	812,068
Loans owed to ultimate parent undertaking	885,193	885,194
	1,746,494	1,697,262

Group borrowings passed through to the Company

Included in amounts owed to fellow subsidiary undertakings is the $450.0 million and $400.0 million in relation to the long-term repayable elements of the senior and junior debt respectively. These amounts were drawn at group level to fund the acquisition of the UK North Sea Assets from Shell and to part fund the 2019 asset related capital program. The terms secured at group level have been passed down to the Company.

The Senior facility at the balance sheet date carried interest at USD LIBOR plus a margin of 3.25 percent, rising to a margin of 3.5 percent after 4 years. Certain fees are also payable including fees on available commitments at 40% of the applicable margin and commission on letters of credit issued at 50% of the applicable margin.

The Junior facility at the balance sheet date carried interest at 6-month USD LIBOR plus a margin of 5.25 percent, rising to a margin of 5.5 percent after 4 years, and is repayable in semi-annual instalments between 30 June 2022 and 30 June 2026.

Also included in amounts owed to fellow subsidiary undertakings is $11.3 million (2018: $0.9 million) which represents the long-term payable balance in respect of a financing agreement between CEPFL with BHGE, details of which are disclosed in note 6.

All these external borrowings have been passed through to the Company on terms matching those of the original transaction.

Other intercompany balances

The remaining balance included in the table above relates to other intercompany loans and balances due to group undertakings which are unsecured, interest free and are repayable on demand.

20. Provisions

	Decommissioning provision $000	Other $000	Total $000
At 1 January 2019	1,288,218	7,690	1,295,908
Additions	28,389	-	28,389
Additions from joint arrangement acquisitions	4,941	-	4,941
Change in estimate- increase in decommissioning asset	7,046	-	7,046
Change in estimate- credit to income statement	-	(7,773)	(7,773)
Utilisation of provision	(5,207)	-	(5,207)
Unwinding of discount	36,690	83	36,773
At 31 December 2019	1,360,077	-	1,360,077

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

Provisions (continued)

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 30 years, the majority of which ae anticipated to be incurred between the next 10 to 20 years. Decommissioning provisions are discounted at a risk-free rate of 2.6 percent (2018: 2.8 percent) 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.

Other provisions relate to contingent consideration arrangements with the previous owners of the UK North Sea asset package acquired by the Company in the year. The consideration is payable subject to future exploration success on certain prospects before 2025. The provision for contingent consideration represents the best estimate of amounts payable under the purchase agreement as at the balance sheet date and will be reviewed at least annually, taking into account actual drilling results and planned activities. Changes to the contingent consideration provision will be presented in the income statement on a prospective basis.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

21. Lease creditor

This note explains the impact of the adoption of IFRS 16 Leases on the Company's financial statements. The new accounting policies that have been applied from 1 January 2019 are disclosed in note 11 (iii).

The Company has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

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 IAS 17 Leases. 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 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019, and on business combinations, was 5.9 percent.

	Total
	$000
Operating lease commitments disclosed at 31 December 2018	6,199
Additional leasing commitments on existing Aberdeen offices *(1)*	7,916
Revised operating lease commitments at 31 December 2018	14,115
Discounting	(3,514)
Lease liability recognised at 1 January 2019, discounted at the Group's incremental borrowing rate	10,601
Of which are:	
Current lease liabilities	734
Non-current liabilities	9,867
	10,601
Lease payments made in the year	(775)
Lease interest charged to income statement	625
Currency translation adjustment	417
Lease liability recognised at 31 December 2019	10,868
Of which are:	*$000*
Current lease liabilities	1,933
Non-current lease liabilities	8,935
	10,868

(1) Assumes leases run to full term with no break clauses exercised

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

Lease creditor (continued)

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.

(i) Impact on Segment Disclosures

As a result of the change in accounting policy, operating profit, segment assets and segment liabilities were impacted as follows:

	Operating Profit	*Assets*	*Liabilities*
	$000	*$000*	*$000*
Acquisition, exploration, development and production of oil and gas	(1,049)	9,401	(10,868)

(ii) *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 2019 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.

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

22. Other Financial Liabilities

	2019 $000	2018 $000
Measured at fair value		
Commodity derivatives - contingent consideration	(12,495)	(35,078)
Total current	(12,495)	(35,078)
Measured at fair value		
Commodity derivatives - contingent consideration	-	(4,276)
Total non-current	-	(4,276)
Total current and non-current	(12,495)	(39,354)

The amounts above are for potential additional payments to the Shell (as per the share and purchase agreement) of up to $600 million and refundable from the sellers of up to $100 million, dependent on future commodity prices over the four-year period ended 31 December 2021.

23. Called Up Share Capital

Allotted, called up and fully paid	2019 No.	2018 No.	2019 $000	2018 $000
Ordinary shares of £1 each	1	1	-	-

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

24. 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.

25. 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 percent controlled within the Group and the Group's financial statements of the Company's ultimate parent undertaking CHL are publicly available from Companies House.

Notes to the Financial Statements

For the year ended 31 December 2019 (continued)

26. Ultimate Parent Undertaking and Controlling Party

The Company's immediate parent undertaking is Chrysaor E&P 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.