Chrysaor Limited

Registered Company Number 06418649

Report and Financial Statements

31 December 2018

Index

	Page
Corporate information	2
Strategic report	3
Directors' report	11
Statement of directors' responsibilities	13
Independent auditors' report	14
Income statement and statement of comprehensive income	17
Balance sheet	18
Statement of changes in equity	19
Notes to the financial statements	20

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 2018.

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").

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 report and financial statements for the year ended 31 December 2018 (the "Group Report").

Business review

Background

On 1 June 2018 the Company acquired the remaining equity in the Armada, Maria and Seymour fields and now holds 100% in the Armada hub. Fellow Group subsidiary Chrysaor North Sea Limited ("CNSL") is the operator of the Armada hub fields.

A 14.1% interest in the Elgin-Franklin fields and 14.7% in Glenelg (which together form the Elgin hub) was acquired from its fellow subsidiary CNSL on 10 April 2018 for a value of $404.3 million (£288.4 million).

The 2018 financial statements reflect the first full year of operations from the portfolio acquired on 1 November 2017 from Shell. Comparative figures for 2017 therefore represent 2 months of operations following completion of the acquisition and the legacy Chrysaor business.

Operated Assets

The Group operates three gas and condensate fields in the Central North Sea - Armada hub, North Everest and Lomond hub. The Company operates North Everest and Lomond Hubs and also technically operates the Erskine field.

Everest

The Group owns 100% of the equity in the Everest field, of which the Company owns 98.12%. The Northern part of the field is produced through the North Everest facility, a combined wellhead, production and accommodation quarters platform, producing gas and condensate bridge-linked to the CATS (Central Area Transmission System) Riser platform. The Installation also processes gas and condensate from the South Everest subsea wellheads, located some 7.1 km south of the North Everest production platform and Everest East Expansion (EEE) wells, located approximately 6.8 km north-east of the installation. As ullage appears, plans may include infill drilling.

The Company has reviewed its maintenance and asset integrity plans to ensure asset life matches end of field life expectation. Many of the historical issues were addressed in the successful TAR, including, spool replacement, internal inspections of key vessels and a significant reduction in corrosion anomalies. The field produced 14.2 mboepd net during the year (2017: 12.2 mboepd net).

Lomond

The Company owns 100% of the Lomond field and has a 32% interest in the Erskine field which together form the Lomond hub. The Lomond hub installation is a combined wellhead, production and accommodation quarters platform, processing gas and condensate from the Lomond and Erskine (Chevron operated) fields. Production is exported via infield pipelines to the CATS Riser platform at North Everest, from where it is exported to the Forties Pipeline System (FPS) and onto the CATS Terminal at Teesside.

Strategic report (continued)

Lomond performance suffered historically under the previous operator from poor uptime due to plant reliability and export issues impacting both Lomond and Erskine fields. In addition, the Lomond liquid export (PL781) pipeline had not been effectively pigged since 2009, resulting in it becoming blocked with wax twice historically before finally blocking for a third time in January 2018. Despite various attempts to unblock it a 26km partial pipeline bypass was completed in September 2018.

Lomond recommenced export in late September while Erskine achieved export in late October. Following a period of ramp up and testing, both fields returned to full production levels and a routine pigging programme was implemented along with a new wax inhibitor.

The Company has reviewed its maintenance and asset integrity plans to ensure asset life extension matches end of field life expectation. During the TAR, the work on Lomond was extensive, over 450m of pipework replaced, a compressor machine change out and all mandatory fire and gas work completed.

As a result of the pipeline blockage in January, the Lomond hub only produced 3.1 mboepd net during 2018 (2017: 6.8 mboepd net).

Non-Operated Assets

Armada

On 1 June 2018 the Company acquired the remaining equity in the Armada, Maria and Seymour fields from Spirit Energy taking the ownership in the Armada hub to 100% for the Group. Fellow Group subsidiary CNSL is the operator of the Armada hub fields.

The Armada hub installation is a combined wellhead, production and accommodation platform processing fluids from the Drake, Hawkins and Fleming gas and condensate fields, with UK Sector tiebacks SW and NW Seymour and Maria. Also tied back to this installation are the third-party fields of Rev (Repsol Norge operated) and Gaupe (Shell operated and ceased production in 2018) in the Norwegian Sector.

Under the previous operator the provisional plan for the Armada hub had been to cease production from June 2018. Upon acquisition in November 2017, The Group assumed operatorship of the Armada hub and took the strategic decision to extend the field life of the asset with plans for drilling on Maria, Mabel, Hawkins and Seymour fields in 2018-2020.

Drilling commenced on the first of the two Maria wells in 2Q 2018. The Rowan Gorilla VII (RGVII) rig was contracted following a refurbishment and despite normal shake-down and some reliability issues, the first Maria Crestal well was safely completed in 4Q 2018 and came on stream in December 2018 with the Maria Terrace well drilled soon after, commencing production in February 2019. The technical subsurface results are still being assessed.

Given the significant change in operational plans for the installation, the Group is reviewing its maintenance and asset integrity plans to ensure asset life matches the new end of field life expectation. This has included completion of a major TAR during 2018. The purpose of the TAR was to complete essential safety critical inspections and recertification of safety critical equipment which has been successfully achieved.

Also, during 2018, there were a number of well interventions to attempt to increase Armada production from its existing well stock which has improved the performance of a number of Armada wells.

During 2018 safety and environmental performance continued to be good with Armada achieving five years LTI free. The hub produced 1.3mboepd net during the Company's ownership period of June to December 2018.

Strategic report (continued)

During the year the Company entered into a service partnership agreement with Baker Hughes, a GE Company ("BHGE"). The contract covers the drilling, completion and the tie-in of development wells within the Armada hub. The Company and BHGE will share in both the risks and rewards associated with operations and reservoir outcome.

Beryl

The Company has a c.39.5% interest in the Beryl area. The Beryl area is operated by Apache and the Company has equity interests in the Beryl, Buckland, Callater, Ness, Nevis and Skene fields along with the Storr discovery. The Beryl oil and gas field has been developed in three phases. The first two phases developed the oil reserves using a large concrete platform (Beryl 'Alpha') in the south of the field, together with a smaller steel platform ('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 continues to work closely with Apache to identify infill and near-field targets with a quick turnaround to production.

Alpha platform drilling was delayed to April 2018 from previously anticipated start date at the beginning of the year. Since then three new wells have been brought online, with drilling of the fourth under way. Overall results are within P50 reserves expectations. The campaign will switch to Beryl Bravo platform in 2Q 2019.

Two wells were drilled on Callater in the second half of 2018. The first well, CC2, found undepleted Cormorant sands and is on production. The second well, CB3, proved the deepest Beryl hydrocarbons in Callater area. As a result, a successful net sand horizontal was completed with first oil in February 2019.

Storr Phase 1 Development was sanctioned in October 2018 and drilling commenced in January 2019 with production planned for 4Q 2019. The development plans were accelerated following partner intervention which brought forward first oil from 2022 to 2019.

The strategy to organically grow through near field exploration will continue by further appraising the Tertiary nearfield plays with one exploration well being planned for 3Q 2019 plus fast-track to 4Q 2019 of the Gair exploration well, in which the Company has 39.445% interest, to appraise northern P139 extension of the Garten Jurassic field (100% Apache) rapidly brought onstream. Positive results on the first Storr well deepening into Triassic would potentially unlock further appraising and development potential of the Storr field accumulation.

In addition, the Company is actively supporting Apache over critical areas in Operations and HSEQ functions jointly aimed at improving long-term performance. The fields produced 16.6 mboepd net during the year (2017: 18.4 mboepd net).

Bressay

The Bressay field is in Quad 9, east of Shetland. The Company has an 18% interest and the field is operated by Equinor. There is 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 to be beneficial and are being evaluated.

Buzzard

The Company has a 21.7% interest in Buzzard, operated by CNOOC Petroleum Europe, (previously known as Nexen) and one of the largest producing fields in the UK Continental Shelf since its start-up in 2007. Located in the Outer Moray Firth 100 km north-east of Aberdeen, the field straddles licenses P986 and P928 (blocks 19 and 20). Buzzard facilities comprise four bridge-linked steel platforms which support wellhead and production facilities, utilities/living quarters, and a further Hydrogen Sulphide stripping (PS) platform.

Strategic report (continued)

The Buzzard asset continued to deliver excellent operational performance during the first half of 2018, consistently producing with strong uptime. Production in the second half of the year was impacted by unplanned outages as a result of delayed rig mobilisation and corrosion under insulation on the main oil export pipeline which shut-in production for around three weeks from mid-November.

The field produced 24.3 mboepd net during the year (2017: 23.1 mboepd net).

Buzzard's considerable net remaining reserves are being further developed through two sanctioned projects scheduled to deliver additional production in the 2019-2020.

An infill drilling campaign commenced in 4Q 2018 from the wellhead platform, targeting multiple low-risk volumes within the main field area. Production from the first well was delivered on time and on budget with production rates still being established. The second well is currently being drilled with two further wells due for approval in the near future.

In addition, the Buzzard Phase 2 subsea tie-back project was approved and has commenced execution to develop new reserves in the northern area of the field, installing additional subsea production and water injection capability ready for start-up in 2021. The Company is working closely with Buzzard partners to ensure that this asset continues to produce its reserves safely and efficiently into the late 2030s. During the year, the Company continued to see good results from effective relationships and early engagement with partners across collaboration initiatives, optimisation of well reservoir management and commercial contracts.

Elgin-Franklin

As of 10 April 2018, the 14.1% interest in the Elgin-Franklin fields and 14.7% in Glenelg (which together form the Elgin hub) was acquired from fellow subsidiary, CNSL. The Elgin hub is operated by Total. Elgin and Franklin are two high pressure and high temperature gas and condensate fields, which started production in 2001. They are located approximately 240 km 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 5 km south of Elgin; and another wellhead platform at the West Franklin satellite field.

Uptime and well performance were strong in 2018 and for the nine months owned by the Company, the hub produced 16.5 mboepd net. The Elgin-Franklin infill drilling campaign continued ahead of schedule. In 1Q19, the Rowan Gorilla V moved to undertake the slot recovery of the F2 well which is being used as a donor well for the next Franklin infill well.

A second rig has been contracted to drill a further Elgin infill well which started drilling in November 2018. Production optimisation continued during 2018 with a production logging tool and reperforation adding incremental production as well as a successful three-well acid wash campaign using an intervention vessel.

J-Area

The Company has a range of equity interest (between 30-35%) in the J-Area which is operated by ConocoPhillips. The J-Area comprises four fields: Jade, Joanne, Jasmine and Judy. The Judy and Joanne developments involve central processing and riser/separation platforms on Judy and a subsea development on Joanne. Development of the Jade field has been via a minimum facilities wellhead platform tied back to and controlled from the Judy platform. Jasmine, located 9 km west of Judy, has been developed using two bridge-linked platforms tied back to a new riser platform at Judy.

Strategic report (continued)

J-Area progressed with its drilling campaign in 2H 2018 with the Jasmine West Limb being brought onto production and performing within expectations. The Jasmine Southern terrace exploration well encountered a column of hydrocarbons however estimated recoverable volumes were not considered sufficient to be commercial. The next well to be drilled in the sequence is the Julia well which will target a proven hydrocarbon accumulation the reservoir.

Operating efficiency continues to be robust and during the year J-Area produced 16.4 mboepd (2017: 14.7 mboepd net).

During the year, through a collaborative partnership effort, a new gas transportation agreement was successfully negotiated with CATS which will result in no additional tariff expense to the partnership. The partners continue to challenge the operator on prudent cost control.

The joint venture partnership maintained its early project engagement resulting in alignment of future development plans and approval the next three wells in the drilling campaign which includes two Joanne North development wells and the Jasmine Merida exploration well, all of which will be spudded in 2019.

The J-Area partners extended their relationship by jointly bidding and being awarded two licences in the 30th Licence Award Round including most significantly, the Talbot discovery and the Dunnottar exploration prospect. The joint venture partnership continues to make good progress towards concept select for the Talbot development. There is also a Dunnottar commitment well due to be drilled in 2020.

Schiehallion

The Company has a 10% interest in the Schiehallion field operated by BP. Schiehallion was first developed in the mid-1990s and has produced over 323 million barrels of oil since start-up in 1998. The major Quad 204 re-development project delivered the new Glen Lyon FPSO to the field in 2017, along with extensive additional subsea infrastructure. This will unlock significant reserves extending Schiehallion field life out to the 2040s.

The Company is actively working with our partners to optimise the ongoing infill campaign, reduce well costs and steer reservoir management. Production has steadily ramped-up since the Glen Lyon start-up in May 2017, reaching 130 mboepd gross by May 2018, with a continued focus on driving vessel operational efficiency. The field produced 8.5 mboepd net during 2018 (2017: 5.0 mboepd net).

Eight Schiehallion wells were completed during 2018 (four producers and four water injectors) and the performance of the Deep-Sea Aberdeen rig has been excellent. The rig will now move to the Alligin/Loyal fields (jointly owned by BP and Shell) for 12 months with the potential to return to Schiehallion in early 2020 for a second phase of drilling.

The Company continues to work closely with the operator and the JV partners to optimise the work programme and in developing the longer-term strategy for the asset. In particular, the Company is actively engaged in optimising the 2019 well intervention programme to include chemical stimulations and choke change-outs on some of the water injection wells as well as a coil tubing intervention on the CP23 well. The Company is also actively working with partners to optimise the second phase of the infill drilling campaign in terms of target identification and reduction in well costs.

Financial performance and position

For the year ended 31 December 2018, the Company changed the currency in which it presents its financial statements from Pounds Sterling to US Dollars, in line with the Company's functional currency and the Group's presentational currency. Comparative amounts included in this report and in the financial statements previously reported in Pounds Sterling have been retranslated into US Dollars.

Strategic report (continued)

Production and revenue

Production for 2018 averaged 96 mboepd compared to 80 mboepd during the two months of November and December 2017 post-acquisition of the Shell assets.

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 $1,808.9 million (2017: $264.0 million), with crude oil sales amounting to $1,220.0 million (2017: $197.1 million), gas revenue of $447.1 million (2017: $48.4 million), and condensate sales and liquefied petroleum gas sales of $141.8 million (2017: $18.4 million). Tariff and other income was $14.2 million (2017: $2.6 million).

Operating costs

Cost of sales for the year totalled $1,050.3 million (2017: $193.3 million) which included depreciation, depletion and amortisation (DD&A) charges on oil and gas assets of $572.2 million (2017: $87.0 million) and a charge of $49.8 million (2017: $21.5 million) in respect of movements in overlift/underlift and movement in hydrocarbon inventories.

During the year, the Company expensed $9.9 million on exploration and appraisal activities (2017: $18.0 million), comprising $9.8 million (2017: $7.3 million) of licence relinquishments and uncommercial well evaluations and $0.1 million (2017: $10.7 million) of pre-licence expenditure.

The Company recognised a credit of $408.8 million (2017: loss $63.2 million) in relation to fair value movements in commodity derivatives as a result of changes in future commodity prices.

A charge of $0.5 million (2017: $21.4 million) was recognised in respect of fair value changes of the contingent consideration as a result of the Shell acquisition. Potential contingent consideration payments to the vendor are linked to higher sustained future commodity prices and exploration success in the Beryl and J-Area.

The Company retained an interest in a royalty stream resulting from the disposal of a pre-production development in 2015. A $1.3 million credit (2017: charge $9.2 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 $9.5 million (2017: $4.2 million).

Net financing costs

Net financing costs for the year totalled $129.8 million (2017: $58.5 million), including intercompany interest expenses of $102.4 million (2017: $40.9 million), bank facility fees of $36.9 million (2017: $5.3 million), foreign exchange gains of $47.4 million (2017: loss $6.4 million), the unwinding of discount (primarily associated with future decommissioning provisions) of $37.7 million (2017: $5.9 million), and other net interest payable of $0.2 million (2017: $nil).

Taxation

Taxation expense amounted to $385.4 million (2017: credit of $327.3 million), split between the current tax credit of $1.6 million (2017: $16.0 million) and a deferred tax expense of $387.1 million (2017: credit of $311.2 million).

Strategic report (continued)

Profit after tax

Profit after tax for the year was $647.9 million (2017: $226.0 million).

Capital expenditure

During the year, the Company incurred capital spend across its operated and non-operated assets of $21.4 million (2017: $9.1 million) and $308.8 million (2017: $21.5 million) million in relation to exploration and evaluation assets and property plant and equipment respectively.

Acquisitions

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). The carrying amount of the assets and liabilities acquired by the company were $562.7 million of property, plant and equipment on oil and gas assets, $15.9 million net working capital and $174.3 million of a decommissioning provision.

The Company acquired equity in the Armada, Maria and Seymour fields from Spirit Energy on 1 June 2018 and as a result, the Group now holds 100% of the Armada hub assets. On completion of the acquisition, the Company paid $0.4 million for these assets and allocated value to fixed assets of $20.5 million, net working capital balances of $1.9 million, deferred tax balances of $3.0 million and decommissioning provisions of $27.9 million, generating goodwill of $2.9 million. Further details on the acquisition can be found in note 11(b) to the financial statements.

Derivative financial instruments

Fellow subsidiary Chrysaor E&P Services Limited ("CEPSL") 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. 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.

At 31 December 2018, the Company's financial hedging programme showed a positive fair value of $345.2 million (2017: $63.6 million negative fair value). These balances are included within amounts owed by fellow subsidiary undertakings in notes 13 and 14 due to the back to back agreements with Chrysaor E&P Services Limited.

Balance sheet and capital structure

At 31 December 2018, the balance sheet showed net assets of $547.1 million (2017: $54.5 million), consisting of non-current assets of $4,370.5 million (2017: $4,089.6 million), net current liabilities of $39.5 million (2017: $2,414.6 million) and non-current liabilities of $3,783.9 million (2017: $ 1,620.5 million).

Total equity balance of $547.1 million (2017: $54.5 million) consists of retained earnings of $552.3 million (2017: $59.8 million) and currency translation reserve deficit of $5.2 million (2017: $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.

Strategic report (continued)

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 and uncertainties which are identified and managed by the Company. The following are the principal risks that the directors consider the Company is exposed to and which are considered to be the most significant due to their likelihood and magnitude of potential consequence:

a. Delivery of strategy
b. Compliance
c. Stakeholder relations
d. UK departure from the European Union
e. Disruption to production
f. Operational safety
g. Asset performance and drilling results
h. Cyber security
i. Commodity prices and foreign exchange
j. Cashflow, liquidity and funding
k. Climate change legislation and regulation

Information about these risks and uncertainties can be found in the Strategic Report within the Group Report.

On behalf of the Board

Andrew Osborne (Director)
29 April 2019

Directors' report

The directors present their report and audited financial statements for the year ended 31 December 2018.

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 secretaries during the year and up to the date of signing of the financial statements:

Howard Landes

Change in presentation currency

On 1 January 2018, the Company changed the currency in which it presents its financial statements from Pounds Sterling to US Dollars, in line with the Company's functional currency (see note 2).

Results and dividends

The profit for the financial year amounted to $647.9 million (2017: $226.0 million). The directors do not recommend the payment of a dividend (2017: $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.

CEPSL 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

Following a sales and purchase agreement dated 20 February 2019, the Company purchased a 1.8822% share in the Everest field from fellow subsidiary Chrysaor North Sea Limited on 1 April 2019.

Directors' liabilities

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

Directors' report (continued)

Going concern

At 31 December 2018, the Company had net current liabilities of $39.5 million. 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 undertaking to directly provide the necessary financial support, to the Company, as and when required, to meet all liabilities for a period of at least 12 months from the date of signing these financial statements.

Disclosure of information to the auditors

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

Independent Auditors

In July 2018, Ernst & Young LLP resigned as auditors of the Company and PricewaterhouseCoopers LLP were appointed. Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the Board

Andrew Osborne (Director)
29 April 2019

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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2018; the Income statement and Statement of other 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

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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 2018 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.

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

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.

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
29 April 2019

Income statement

for the year ended 31 December

	Note	2018 $000	2017 Restated $000
Revenue	3	1,823,166	266,584
Cost of sales		(1,050,319)	(193,325)
Gross profit		772,847	73,259
Exploration & Evaluation expenditure	4	(54)	(10,662)
Exploration costs written off	4	(9,838)	(7,348)
Re-measurements	4	409,643	(93,771)
General and administrative costs		(9,497)	(4,214)
Operating profit/(loss)		1,163,101	(42,736)
Finance income	6	47,452	11
Finance expenses	6	(177,242)	(58,549)
Profit/(loss) before taxation		1,033,311	(101,274)
Tax (expense)/credit	7	(385,414)	327,263
Profit for the financial year		647,897	225,989

Statement of comprehensive income

	2018 $000	2017 Restated $000
Profit for the financial year	647,897	225,989
Items that may be classified to income statement in subsequent periods		
Deferred tax arising common control acquisition	(155,358)	-
Currency exchange differences	-	(5,221)
Comprehensive loss for the financial year, net of tax	(155,358)	(5,221)
Total comprehensive income for the financial year	492,539	220,768

The notes on pages 20 to 43 form part of these financial statements.

Balance sheet

as at 31 December

	Note	*2018* $000	*2017 Restated* $000	*2016 Restated* $000
Non-current assets				
Goodwill	8	413,859	421,225	-
Exploration and evaluation assets	9	43,580	32,065	4,087
Property, plant and equipment	10	3,669,892	3,624,895	-
Other financial assets	13	243,165	11,372	23,542
Deferred tax		-	-	21,581
Total non-current assets		4,370,496	4,089,557	49,210
Current assets				
Inventories	12	83,851	70,234	-
Debtors: amounts falling due within one year	14	677,776	398,822	3,160
Cash and cash equivalents	15	12	23,267	203
Total current assets		761,639	492,323	3,363
Total assets		5,132,135	4,581,880	52,573
Current liabilities				
Creditors: amounts falling due within one year	17	(766,081)	(2,888,558)	(2,802)
Other financial liabilities	20	(35,078)	(18,319)	-
Total current liabilities		(801,159)	(2,906,877)	(2,802)
Non-current liabilities				
Creditors: amounts falling due after one year	18	(1,672,019)	-	(216,004)
Provisions	19	(1,295,908)	(1,327,908)	-
Deferred tax	7	(811,699)	(272,260)	-
Other financial liabilities	20	(4,276)	(20,300)	-
Total non-current liabilities		(3,783,902)	(1,620,468)	(216,004)
Total liabilities		(4,585,061)	(4,527,345)	(218,806)
Net assets/(liabilities)		547,074	54,535	(166,233)
Capital and reserves				
Called up share capital	21	-	-	-
Currency translation reserve		(5,221)	(5,221)	-
Retained earnings/(accumulated losses)		552,295	59,756	(166,233)
Total equity		547,074	54,535	(166,233)

The notes on pages 20 to 43 form part of these financial statements.

The financial statements on pages 17 to 43 were approved by the Board of Directors on 29 April 2019 and signed on its behalf by:

Andrew Osborne (Director)

29 April 2019

Company Registration No: 06418649

Statement of changes in equity

for the year ended 31 December

	Called Up Share capital $000	*Currency translation reserve $000*	*(Accumulated losses)/ Retained earnings $000*	*Total $000*
At 1 January 2017 Restated	-	-	(166,233)	(166,233)
Profit for the financial year	-	-	225,989	225,989
Other comprehensive expense	-	(5,221)	-	(5,221)
At 31 December 2017 Restated	-	(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

Notes to the financial statements

for the year ended 31 December 2018

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Chrysaor Limited for the year ended 31 December 2018 were authorised for issue by the board of directors on the 29 April 2019 and the balance sheet was signed on the board's behalf by Andrew Osborne.

The Company is a private company limited by share capital 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 (inc 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 2018 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.*

Change in accounting policy - presentation currency

On the 31 October 2017, the Company changed its functional currency from Pounds Sterling to US Dollars in line with the Group policy as the Company's cash flows became principally denominated in US Dollars. However, it was decided to continue to present the prior year's financial statements in Pound Sterling as this was predominantly the functional currency during the year.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

On 1 January 2018, the Company changed the currency in which it presents its financial statements from Pounds Sterling to US Dollars, in line with the Company's functional currency and Group's presentational currency.

A change in accounting policy is accounted for retrospectively. Comparative information included in these financial statements previously reported in Pounds Sterling has been retranslated into US Dollars using the principles outlined below:

- assets and liabilities denominated in non-US Dollar currencies were translated into US Dollars at the closing rates of exchange;
- non-USD trading results for 2017 were translated into US Dollars at a post-acquisition (November/December 2017) average rate of exchange;
- exchange differences resulting from the retranslation of the opening net assets and the results for the year have been taken to the translation reserve within equity;
- share capital and reserves were translated into US Dollars at rates prevailing at the time of the transaction; and
- the cumulative translation reserve was set to nil at 1 January 2017.

The exchange rates of US Dollar to Pounds Sterling over the periods included in these financial statements are as follows:

US Dollar / Pounds Sterling exchange rate	2018	2017	2016
Closing rate	1.28	1.35	1.23
Annual average rate	1.33	1.35	-

Going concern

At 31 December 2018, the Company had net current liabilities of $39.5 million. 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 undertaking to directly provide the necessary financial support, to the Company, as and when required, to meet all liabilities for a period of at least 12 months from the date of signing these financial statements.

Segment reporting

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

Joint arrangements

Exploration and production operations are usually conducted through joint arrangements with other parties. The 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.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

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; and
- 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 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

Notes to the financial statements

for the year ended 31 December 2018 (continued)

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.

(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.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

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. The capitalised value of a finance lease is also included within property, plant and equipment.

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.

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).

Notes to the financial statements

for the year ended 31 December 2018 (continued)

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 Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

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.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

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.

Leasing commitments

Rentals payable under operating leases are charged in the Income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term taking account of reasonably expected extensions.

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:

Notes to the financial statements

for the year ended 31 December 2018 (continued)

- 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.

Over/underlift

Revenues from the production of oil and natural gas properties in which the Group 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.

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 2018. There were no significant effects from the adoption of these standards and interpretations.

Significant accounting judgements

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.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

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

- *Exploration and evaluation expenditure*

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

Key sources of estimation uncertainty

- *Oil and gas reserves*

Significant estimates and judgements and required when assessing the economically recoverable reserves of an oil and gas field. Such estimates are impacted by a number of factors, including commodity prices, future capital expenditure and the available reservoir data. The estimation of oil and gas reserves affects the calculation of depreciation, the recoverable amount of assets for the purpose of impairment testing and the anticipated date of decommissioning.

- *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 (VIU). The assessments of VIU require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance.

- *Decommissioning costs*

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The Company assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, and the expected timing, extent and amount of expenditure. On the basis that all other assumptions in the calculation remain the same, a 10% increase in the cost estimates used to assess the final decommissioning obligation would result in an increase to the decommissioning provision of approximately $192 million. This change would be principally offset by a change to the value of the associated asset.

- *Recovery of deferred tax assets*

Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable income are based on forecasted cash flows from operations and judgement about the application of existing tax laws. Judgement is required to determine whether deferred tax assets are recognised in the balance sheet.

- *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 2018 (continued)

3. Revenue

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

	2018 $000	2017 $000
Crude oil sales	1,219,987	197,137
Gas sales	447,142	48,384
Condensate and liquefied petroleum gas sales	141,777	18,439
Other sundry sales	140	-
Tariff income	14,120	2,624
	1,823,166	266,584

Revenues of $1,872.0 million were from contracts with customers. This was offset by realised hedging losses on crude sales in the year of $48.8 million (2017: nil). Approximately 95% (2017: 95%) of the revenues were attributable to energy trading companies of the Shell group.

The revenues for 2017 reflect the two months of oil and gas production following the acquisition described in note 11.

4. Operating profit/(loss)

This is stated after charging/(crediting):

	2018 $000	2017 $000
Depreciation- oil and gas producing assets	576,782	87,037
Credit due to reduction in decommissioning provision	(4,590)	-
Movement in over/under-lift balances and hydrocarbon inventories	49,786	21,473
Exploration & evaluation expenditure	54	10,662
Exploration costs written off	9,838	7,348
Re-measurement of royalty valuation	(1,327)	9,171
Re-measurement of contingent consideration for commodity price	734	21,365
Re-measurement of contingent consideration on future exploration results	(217)	-
Re-measurement of derivatives	(408,833)	63,235
Auditors' remuneration - audit of the financial statements	93	149

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.

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 (note 13).

Notes to the financial statements

for the year ended 31 December 2018 (continued)

Operating profit/(loss) (continued)

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.

CEPSL, 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 gain of $408.8million (2017: loss of $63.2million) due to the fair value movement on these back to back derivatives. $345.2 million (2017: payable of $63.6 million) is included as a receivable within amounts due from fellow subsidiary undertakings (notes 13 and 14).

5. Staff cost and directors' remuneration

(a) Staff costs

The Company had no employees during the year (2017: average of 6). During 2017, all employee contracts with the Company were transferred to a fellow subsidiary, CEPSL. All employees in 2017 were executive directors and were engaged in the acquisition, exploration, development and production of oil and gas reserves. The Company does not operate any defined benefit schemes and does not make any contributions on behalf of employees.

(b) Directors' remuneration

	2018	*2017*
	$000	*$000*
Directors' remuneration	2,215	1,912
Payments made in lieu of pension contributions	179	88
Pension	25	26
	2,419	2,026

The directors' remuneration refers to the total salaries, other emoluments and benefits paid to directors of the Company by fellow subsidiary, 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:

	2018	*2017*
	$000	*$000*
Directors' remuneration	1,286	495
Payments made in lieu of pension contributions	105	33
Pension	12	6
	1,403	534

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

Notes to the financial statements

for the year ended 31 December 2018 (continued)

6. Finance income and finance expenses

	2018	2017
	$000	$000
Finance income		
Other interest receivable	94	11
Foreign exchange gain	47,358	-
	47,452	11
Finance expenses		
Intercompany interest expense on bank loans	(99,914)	(40,946)
Intercompany interest on other loans	(2,511)	-
Bank and financing fees	(36,868)	(5,310)
Unwinding of discount on decommissioning provisions (note 19)	(36,606)	(5,389)
Unwinding of discount on contingent consideration (note 19)	(147)	-
Unwinding of discount on deferred consideration	(925)	(462)
Other interest payable	(271)	(18)
Foreign exchange loss	-	(6,424)
	(177,242)	(58,549)
Net Finance expenses	(129,790)	(58,538)

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 Chrysaor E&P Finance Limited ("CEPFL").

Intercompany interest on other loans represents interest passed though from CEPFL which arose from the financing arrangement which CEPFL entered into during 2018 on behalf of the Company. The financing arrangement is with Baker Hughes, a GE Company ("BHGE") 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 $17.3 million (2017: $2.8 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 2018 (continued)

7. Tax (expense)/credit

(a) Tax expensed in the income statement

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018 *$000*	*2017* *$000*
Current income tax:		
UK corporation tax	17	(16,027)
Amounts (over) provided in previous year	(1,664)	-
Total current income tax	(1,647)	(16,027)
Deferred tax:		
Origination and reversal of temporary differences	372,739	(311,236)
Amounts under provided in previous year	14,322	-
Total deferred tax	387,061	(311,236)
Tax expense/(credit) in the Income statement	385,414	(327,263)

(b) Reconciliation of the total tax expense/(credit)

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:

	2018 *$000*	*2017* *$000*
Profit/(loss) before taxation	1,033,311	(101,274)
Tax calculated at UK standard rate of corporation tax for UK ring-fence companies of 40% (2017: 40%)	413,324	(40,510)
Effects of:		
Items not allowable for tax purposes	199	9,775
Adjustments recognised for current tax of prior periods	12,658	-
Interest not deductible for supplementary charge	9,263	5,269
Ring fence expenditure supplement	(24,877)	(45,972)
Recognition of previously unrecognised capital allowances	-	(12,306)
Investment allowance	(25,133)	-
Recognition of previously unrecognised losses	-	(243,519)
Impact of losses relieved at different rates	(20)	-
Total tax expense/(credit) reported in the income statement	385,414	(327,263)

Notes to the financial statements

for the year ended 31 December 2018 (continued)

Tax (expense)/credit (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 2017	-	-	-	23,164	-	23,164
Deferred tax (expense)/credit	(320,979)	2,689	-	604,156	25,370	311,236
Acquisition accounting	(1,132,030)	525,370	-	-	-	(606,660)
At 31 December 2017	(1,453,009)	528,059	-	627,320	25,370	(272,260)
Deferred tax (expense)/credit	207,396	(93,638)	31,321	(368,398)	(163,742)	(387,061)
Disposal of asset	(155,356)	-	-	-	-	(155,356)
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 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 2018. 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.

Changes in tax rate

UK Finance Act (No 2) Act 2015 which introduced further reductions in the UK corporation tax rate to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020 was enacted on 15 November 2015.

UK Finance Act 2016 which introduced further reductions in the UK corporation tax rate to 17% effective from 1 April 2020 was enacted on 15 September 2016.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

8. Goodwill

	$000
At 1 January 2018	421,225
Additions	2,943
Adjustments in respect of 2017 acquisition	(10,309)
At 31 December 2018	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 the year, the Company agreed the final completion statement with Shell which reduced goodwill by $10.3 million (note 11).

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 2018	32,065
Additions	21,353
Amounts written-off	(9,838)
At 31 December 2018	43,580

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 2018 (continued)

10. Property, plant and equipment

	Oil & gas development & production assets $000
Cost:	
At 1 January 2018	3,711,932
Additions	308,767
Acquisition of interests in joint arrangements	583,230
Reduction in decommissioning asset	(270,218)
At 31 December 2018	4,333,711
Accumulated Depreciation:	
At 1 January 2018	87,037
Charge for the year	576,782
At 31 December 2018	663,819
Net book value:	
At 31 December 2018	3,669,892
At 31 December 2017	3,624,895

Information on the acquisition of interests in joint arrangements can be found in note 11.

A reduction of $270.2 million to decommissioning assets was recognised as a result of an update to decommissioning estimates (note 19).

11. Acquisition of interests in joint arrangements

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

Notes to the financial statements

for the year ended 31 December 2018 (continued)

Acquisition of interests in joint arrangements (continued)

From the date of acquisition, the business contributed $205.9 million of revenue and $130.1 million 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 $283.5 million in the year to 31 December 2018, and $176.7 million towards profit before tax.

(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 assets 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.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

Acquisition of interests in joint arrangements (continued)

Acquisition of interests in joint arrangements during the year ended 31 December 2017

In January 2017, Chrysaor signed an agreement to acquire a package of assets in the UK North Sea from Shell UK for a price of approximately $3.0 billion with further payments between the two companies contingent upon future exploration results and commodity prices.

The transaction completed on 1 November 2017 and comprised the direct acquisition of interests in certain joint arrangements which were acquired by the Company.

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

	Total *$000*
Intangible exploration assets	25,935
Property, plant and equipment	3,688,543
Inventory	100,951
Trade and other receivables	36,685
Trade and other payables	(118,759)
Deferred tax	(614,031)
Provision for decommissioning	(1,313,400)
Fair value of net identifiable assets acquired	1,805,924
Cash consideration on completion	1,977,881
Deferred consideration	213,612
Contingent consideration	25,347
Total consideration transferred	2,216,840
Goodwill recognised	410,916

Finalisation of prior year acquisition

As reported at 31 December 2017	
Fair value of identifiable net assets acquired	1,786,327
Total consideration transferred	2,207,552
Goodwill recognised	421,225
Movement in the year	
Fair value of identifiable net assets acquired	19,597
Total consideration transferred	9,288
Goodwill recognised	(10,309)

Acquisition related costs of $3.9 million was incurred during 2017 and recognised as an expense within operating costs.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

Acquisition of interests in joint arrangements (continued)

A final cash payment of $9.3 million was paid and the valuation of trade and other payables was reduced by $19.6 million following full and final settlement with Shell in August 2018. The numbers in the table above have been updated for these changes and goodwill reduced by $10.3 million.

The deferred consideration represented $215.0 million payable to the seller no later than six months following the acquisition date and was included in the consideration transferred at a discounted value. The $215.0 million was settled in April 2018.

The transaction includes provisions for additional payments to the sellers 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 2020. These contingent payments and receipts represent derivative instruments. The total consideration transferred includes an amount of $17.6 million of contingent consideration, representing an estimate of the fair value of these derivative instruments at the acquisition date. The contingent consideration also includes an amount of $7.7 million, representing the estimated fair value of additional payments to the sellers which are dependent upon future exploration results in Beryl and J-Area. Liabilities for contingent consideration are assessed at each reporting date with any change in the valuation reported through the income statement.

Goodwill of $410.9 million was recognised on the acquisition, representing the excess of the total consideration transferred over the fair value of the net assets acquired. The fair values for the oil and gas assets recognised as property, plant and equipment was determined by reference to commodity forward price curves for the first three years following the acquisition date and, for subsequent years, based on a market consensus. None of the goodwill is deductible for corporation tax.

In 2017, the results of the Company include revenue of $266.6 million and an estimated operating loss of $21.1 million attributable to the acquired businesses. Prior to the acquisition, the Company had no revenues. The acquisition completed close to the reporting date and the historic data available to the Company as at the date of this report means it has not been practicable to determine a reliable estimate of what the results of the Group would have been had the acquisition occurred at the beginning of the accounting period.

12. Inventories

	2018	*2017*
	$000	*$000*
Hydrocarbons	17,972	18,260
Consumables and subsea supplies	65,879	51,974
	83,851	70,234

Hydrocarbon inventories are measured at net realisable value. Inventories of consumables and subsea supplies include a provision of $2.2 million (2017: $nil) 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 2018 amounted to $3.5 million (2017: $1.7 million).

Notes to the financial statements

for the year ended 31 December 2018 (continued)

13. Other financial assets

	2018 $000	2017 $000
Royalty consideration	9,700	11,372
Amounts owed by fellow subsidiaries	233,465	-
	243,165	11,372

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 2018, the Company valued the outstanding consideration receivable at $12.7 million (2017: $14.4 million) of which $3.0 million (2017: £3.0 million) is considered to be receivable within one year (refer note 14).

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

14. Debtors: amounts falling due within one year

	2018 $000	2017 $000
Royalty consideration (note 13)	3,000	3,000
Trade debtors	68,131	122,299
Under-lift position	18,132	49,498
Amounts owed by fellow subsidiaries	449,258	206,280
Amounts owed by ultimate parent company	586	-
Amounts due by fellow subsidiaries in respect of taxation	17,685	10,201
Amounts due by parent companies in respect of taxation	-	5,819
Other debtors	15,430	1,511
Prepayments and accrued income	105,554	214
	677,776	398,822

Trade receivables are non-interest bearing and are generally on 20 to 30 days' terms. As at 31 December 2018, there were no (2017: $nil) trade receivables that were past due but not impaired. All amounts owed by parent and subsidiary undertakings are unsecured, interest free and are repayable on demand.

15. Cash and cash equivalents

	2018 $000	2017 $000
Cash at bank and in hand	12	23,267
	12	23,267

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

Notes to the financial statements

for the year ended 31 December 2018 (continued)

16. Commitments

Operating lease commitments

The Company has financial commitments in respect of operating leases for the office premises in Aberdeen. The future minimum rentals payable under the lease are as follows:

	2018 $000	2017 $000
Not later than one year	609	1,119
After one year but not more than five years	5,590	5,957
	6,199	7,076

Capital commitments

As at 31 December 2018, the company had placed contracts for capital expenditure amounting to $434,490,000 (2017: $308,090,000). 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.

17. Creditors: amounts falling due within one year

	2018 $000	2017 $000
Trade creditors	15,466	13,541
Over-lift position	32,316	31,048
Amounts owed to fellow subsidiaries	542,439	1,594,635
Amounts owed to parent undertakings	1	885,196
Amounts owed to parent undertakings in respect of taxation	18	-
Other creditors	-	237,696
Corporation tax payable	-	2
Other taxes payable	-	774
Accruals and deferred income	175,841	125,666
	766,081	2,888,558

Included in amounts owed to fellow subsidiary is the short-term element of a loan balance amounting to $88.9 million in relation to the junior debt facility entered into by fellow subsidiary CEPFL (see note 18 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 subsidiary is the short-term element of a loan balance of $14.7 million (2017: nil) in respect of a financing agreement entered into by CEPFL with BHGE. See note 6 for further details. This loan was passed through to the Company.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

18. Creditors: amounts falling due after more than one year

	2018 $000	2017 $000
Amounts owed to fellow subsidiary undertakings	1,672,019	-

Group borrowings passed through to the Company

Included in amounts owed to fellow subsidiary undertakings is $500.0 million and $311.2 million in relation to the long-term repayable elements of the senior and junior debt respectively.

In 2017, the Group entered into a number of borrowing arrangements and facilities to fund the acquisition of the UK North Sea assets by the Group. The primary arrangement was an RBL facility of $1.5 billion, being a six-year facility with a consortium consisting of 17 banks and secured by a pledge over the Group's oil and gas interests in the North Sea. During 2018, the decision was taken to exercise the option of the $0.5 billion accordion, increasing the facility to $2.0 billion. Subject to the maximum size of the facility which reduces every six months on a straight-line basis from 31 December 2018 to 31 December 2022, the amount available under the facility is determined semi-annually based on a valuation of the Group's borrowing base assets under certain forward-looking assumptions. The facility carries interest at USD LIBOR plus a margin of 4%, rising to a margin of 4.5% after 4 years. Certain fees are also payable including fees on available commitments at 40% of the applicable margin and a 2% commission on letters of credit issued.

The Group also has a junior facility of $400 million which carries interest at 6-month USD LIBOR plus a margin of 7% and is repayable in instalments between 2019 and 2023.

As at 31 December 2018, the junior facility remained fully drawn and $1.1 billion remained available for drawdown under the RBL facility.

Also included in amounts owed to fellow subsidiary undertakings is $0.9 million which represents the long-term payable balance in respect of a financing agreement entered into by 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.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

19. Provisions

	Decommissioning provision $000	Other $000	Total $000
At 1 January 2018	1,320,148	7,760	1,327,908
Additions	18,941	-	18,941
Additions from joint arrangement acquisitions	202,281	-	202,281
Change in estimate- reduce decommissioning asset	(270,218)	-	(270,218)
Change in estimate- credit to income statement	(4,590)	(217)	(4,807)
Utilisation of provision	(14,950)	-	(14,950)
Unwinding of discount	36,606	147	36,753
At 31 December 2018	1,288,218	7,690	1,295,908

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 25 years. Approximately half of the costs currently provided for are anticipated to be incurred between 10 to 20 years. Decommissioning provisions are discounted at a risk-free rate of 2.8% (2017: 2.5%) 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 2018 (continued)

20. Other financial liabilities

	2018 $000	2017 $000
Measured at fair value		
Commodity derivatives - contingent consideration	(35,078)	(18,319)
Total current	(35,078)	(18,319)
Measured at fair value		
Commodity derivatives - contingent consideration	(4,276)	(20,300)
Total non-current	(4,276)	(20,300)
Total current and non-current	(39,354)	(38,619)

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.

21. Called up share capital

Allotted, called up and fully paid	2018 No.	2017 No.	2018 $000	2017 $000
Ordinary shares of £1 each	1	1	-	-

There was no issuance of ordinary or preference shares in 2018 or 2017.

22. Post balance sheet events

Following a sales and purchase agreement dated 20 February 2019, the Company purchased a 1.8822% share in the Everest field from fellow subsidiary Chrysaor North Sea Limited on 1 April 2019. The Company now owns 100% of the field.

23. Related party disclosure

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

24. Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking is Chrysaor E&P Limited and the ultimate parent undertaking and controlling party is CHL in whose consolidated financial statements the Company's financial statements are consolidated. The consolidated financial statements of CHL are publicly available from Companies House.