

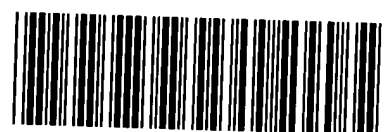
Chrysaor Limited

Registered Company Number 06418649

Annual Report and Financial Statements

31 December 2020

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Chrysaor Limited

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Chrysaor Limited

Corporate information

Directors

Phil Kirk
Andrew Osborne

Secretary

Howard Landes

Independent Auditors

PricewaterhouseCoopers LLP
The Capitol
431 Union Street
Aberdeen
AB11 6DA

Registered Office

Brettenham House
Lancaster Place
London
United Kingdom
WC2E 7EN

Company No. 06418649

Chrysaor Limited

Strategic Report

The directors present their Strategic Report for the year ended 31 December 2020.

Principal Activities and Review of the Business

During the year ended 31 December 2020, Chrysaor Limited (the Company) was part of the Chrysaor group of companies (the Group).

The Company's immediate parent company is Chrysaor E&P Limited. As at 31 December 2020, the Company's ultimate parent company was Chrysaor Holdings Limited (CHL).

On 31 March 2021, the Group completed the all-share merger with Premier Oil plc forming the largest independent oil and gas company listed on the London Stock Exchange. Following completion of the transaction, the Company's ultimate and controlling parent is Harbour Energy plc.

The Group's and Company's principal activities are the acquisition, exploration, development and production of oil and gas reserves on the UK Continental Shelf. Further information can be found in CHL's consolidated annual report and accounts for the year ended 31 December 2020 (the Group Report).

Business Review

Operated Assets

The Group operates five complexes in the Central North Sea, which are run as three business units or hubs; the Armada, Everest and Lomond fields (AELE hub), all of which are owned 100 percent, comprise one hub, along with Erskine (controlled from Lomond), the J-Area and Greater Britannia Area (GBA). J-Area is operated by fellow subsidiary Chrysaor Petroleum Company U.K. Limited, with the Company holding a range of equity interest of between 30%-35%. GBA is operated by fellow subsidiary Chrysaor Production (U.K). Limited.

The AELE hub production averaged 26 mboepd (net) (2019: 33 mboepd). The Hawkins and Seymour Horst wells, which were brought on stream in October 2020, have performed below pre-drill expectations with remedial action under consideration. In December 2020, we sanctioned the LAD infill development well at Everest East, with drilling scheduled for 3Q 2021.

Non-Operated Assets

Beryl Area fields averaged 17 mboepd (net) (2019: 17 mboepd), supported by an ongoing well-intervention programme and continued infill drilling. Exploration activity in the Beryl area Tertiary play has been positive, with two successful wells drilled on Solar and Corona. The Gamma/Losgann well results are also encouraging. Each discovery in this area improves the potential for a possible development, with several scenarios under consideration, including co-development with adjacent Norwegian discoveries.

Production from Buzzard averaged 19 mboepd (net) (2019: 23 mboepd). Phase 1 infill drilling has performed on or above target, while Buzzard Phase 2 drilling results have been towards the lower end of expectations. Drilling has now paused, and further wells and side-track activity will not commence until after the Phase 2 wells have come onto production, expected in December 2021.

Elgin/Franklin averaged 19 mboepd (net) (2019: 16 mboepd). This was ahead of expectations, with the fields benefitting from very high production efficiency, ongoing infill drilling and well-intervention programme. The operator is currently planning facilities and integrity work towards a potential extension of field life.

J-Area had a strong production delivery of 15 mboepd (2019: 16 mboepd annualised equivalent) and a high production efficiency. Production efficiency was affected by unplanned shutdowns associated with the CATS gas terminal in April and October. We carried out a proactive shutdown ahead of schedule in December 2020 to allow repairs to be carried out on the low-pressure flare

Chrysaor Limited

Strategic Report (continued)

system. We successfully completed the Joanne Chalk S16 well and started production ahead of schedule in January 2021. Initial performance is in line with expectations.

Schiehallion produced 6 mboepd (net) (2019: 7 mboepd). The *Glen Lyon* floating production storage offtake vessel has improved its production efficiency compared to 2019. However, the production performance was impaired by problems with sand management challenges. Pausing the infill drilling programme is expected to affect production rates until infill drilling restarts scheduled for 2023.

Financial performance and position

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

Production and Revenue

Production for 2020 averaged 102 mboepd compared to 113 mboepd during 2019.

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 \$1695.3 million (2019: \$1,998.1 million), with crude oil sales amounting to \$1,108.0 million (2019: \$1,386.6 million), gas revenue of \$499.0 million (2019: \$482.0million), and condensate sales and liquefied petroleum gas sales of \$88.2 million (2019: \$129.5 million). Tariff income was \$15.1 million (2019: \$13.0 million).

Operating Profit

An operating profit of £307.0 million was recognised during the year (2019: £786.1 million).

Cost of sales for the year totalled \$964.8 million (2019: \$1,157.7 million) which included depreciation, depletion and amortisation (DD&A) charges on oil and gas assets of \$629.3 million (2019: \$681.5 million) and a credit of \$107.1 million (2019: charge of \$20.1 million) in respect of movements in overlift/underlift and movement in hydrocarbon inventories.

During the year, the Company expensed \$18.6 million on exploration and appraisal activities (2019: \$0.9 million), comprising \$14.0 million (2019: \$0.2 million) of licence relinquishments and uncommercial well evaluations and \$4.6 million (2019: \$0.7 million) of pre-licence expenditure.

The Company recognised an impairment charge of \$245.2 million within the income statement relating to property, plant and equipment. This arises mainly on the Company's older gas assets and is primarily based on the change of commodity price assumptions for impairment purposes to \$60 per barrel for crude oil and 40p per therm for natural gas rather than a fundamental change in the nature of the producing assets. Impairments on property, plant and equipment are potentially reversible in the future.

The Company recognised a loss of \$145.9 million (2019: loss of \$61.0 million) in relation to fair value movements in commodity derivatives as a result of changes in future commodity prices.

The Company retains an interest in a royalty stream resulting from the disposal of a pre-production development in 2015. A \$1.3 million loss (2019: credit of \$2.4 million) was recognised in the year relating to the re-measurement of the future value attributed to this royalty stream. Following the completion of the all-share merger with Premier Oil plc in March 2021, this royalty agreement has been terminated.

In 2019 a credit of \$0.6 million was recognised in respect of fair value changes in potential contingent consideration due on the Shell acquisition. All amounts were fully settled and hence there are no reported remeasurement movements in 2020.

The Company has recorded an \$18.5 million (2019: nil) onerous-contract provision for long-term standby costs on the rig which had been operating within the Schiehallion field. Given there

Chrysaor Limited

Strategic Report (continued)

were no future approved activities, which would have resulted in the rig remaining on standby until April 2022, the rig contract was terminated by the Operator.

General and administration expenses for the year amounted to \$9.2 million (2019: \$8.4 million).

Net Financing Costs

Net financing costs for the year totalled \$130.7 million (2019: \$123.2 million), including intercompany interest expenses of \$47.4 million (2019: \$61.4 million), intercompany interest receivable of \$0.6 million (2019: \$14.2 million). In addition, net financing costs also include bank facility fees of \$18.8 million (2019: \$34.7 million), foreign exchange losses of \$30.9 million (2019: loss of \$3.6 million) and the unwinding of discount (primarily associated with future decommissioning provisions) of \$33.4 million (2019: \$36.7 million). Other net interest payable, which includes a lease interest charge of \$0.6 million (2019: 0.6 million) associated with IFRS 16 lease creditors (see note 11), totals \$0.7 million (2019: \$1.0 million).

Taxation

Taxation expense amounted to \$66.7 million (2019: \$245.6 million), split between the current tax expense of \$367.8 million (2019: \$115.5 million) and a deferred tax credit of \$301.1 million (2019: expense of \$130.1 million).

Profit for the financial year

Profit for the financial year was \$109.7 million (2019: \$417.3 million).

Capital expenditure

During the year, the Company incurred capital spend across its operated and non-operated assets of \$65.8 million (2019: \$38.1 million) and \$238.5 million (2019: \$337.6 million) million in relation to exploration and evaluation assets and property plant and equipment respectively.

Derivative Financial Instruments

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

At 31 December 2020, the Company's financial hedging programme showed a positive fair value of \$158.1 million (2019: \$309.9 million). These balances are included within amounts owed by fellow subsidiary undertakings in notes 14 and 15 due to the back to back agreements with Chrysaor E&P Finance Limited.

Balance Sheet and Capital Structure

At 31 December 2020, the balance sheet showed net assets of \$1,073.5 million (2019: \$963.9 million), consisting of non-current assets of \$4,430.0 million (2019: \$4,867.5 million), net current assets of \$832.0million (2019: net current assets of \$154.2 million) and non-current liabilities of \$4,188.5 million (2019: \$4,057.8 million).

Total equity balance of \$1,073.5million (2019: \$963.9 million) consists of retained earnings of \$1,078.7million (2019: \$969.1 million) and a deficit on currency translation reserves of \$5.2 million (2019: \$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.

Chrysaor Limited

Strategic Report (continued)

Key Performance Indicators (KPIs)

The Group's activities consist of one class of business being the acquisition, exploration, development and production of oil and gas reserves. The Company's KPIs are aligned with those of the Group. Further information about KPIs in the context of the Group business can be found in the Group Report and are reflected in the financial performance and position above.

Principal Risks and Uncertainties

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

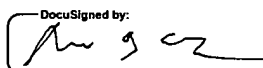
Section 172 Companies Act 2006

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

Streamlined Energy and Carbon Reporting

The Chrysaor group adopted the requirements of The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 to include a compliance statement in relation to Streamlined Energy and Carbon Reporting (SECR). Further information can be found in the Group Strategic Report within the Group Report.

On behalf of the Board

DocuSigned by:

C75917B668F745D...
Andrew Osborne (Director)

22 July 2021

Chrysaor Limited

Directors' Report

The directors present their report and audited financial statements for the year ended 31 December 2020.

Directors

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

Phil Kirk
Andrew Osborne

Secretary

Howard Landes served as company secretary during the year and up to the date of signing of the financial statements.

Results and Dividends

The profit for the financial year amounted to \$109.7million (2019: \$417.3 million). The directors do not recommend the payment of a dividend (2019: \$nil).

Financial Instruments

The Company finances its activities with a combination of intercompany loans, cash and short-term deposits. Other financial assets and liabilities, such as trade debtors, trade creditors and intercompany balances, arise directly from the Company's operating activities.

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

CEPFL, on behalf of the Company, entered into a combination of fixed price physical sales contracts and cash-settled financial commodity derivatives during the year to manage the price risk associated with Company's underlying oil and gas revenues, and cash-settled financial carbon swaps to manage the price risk associated with the Company's carbon emissions costs. 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

On 31 March 2021, the Group completed the all-share merger with Premier Oil plc forming the largest independent oil and gas company listed on the London Stock Exchange.

In April 2021, the Company entered into an agreement to transfer its non-operated interests in the Buzzard, Schiehallion, Elgin/Franklin and Glenelg fields (including interests in the SEAL and GAEL pipelines) to Premier Oil UK Limited. The primary strategic rationale for these transfers is to enhance the financial resilience of Premier Oil UK Limited by transferring assets which each generate reliable positive cash flow. The transfers are part of a wider co-ordinated plan to enhance the financial resilience of Premier Oil UK Limited, which is to the benefit of the entire enlarged group. A secondary objective is to consolidate the enlarged group's interests in the Elgin/Franklin and Glenelg assets and SEAL and GAEL pipelines in Premier Oil UK Limited, and to also consolidate the enlarged group's West of Shetland interests to create a cohesive West of Shetland business unit. The consolidation will also generate future operational efficiencies.

Chrysaor Limited

Directors' Report (continued)

Post Balance Sheet Events (continued)

The transfers of the Buzzard and Schiehallion fields completed on 1 July 2021 and the transfer of the Elgin/Franklin and Glenelg fields (including interests in the SEAL and GAEL pipelines) is expected to complete on 1 August 2021.

Wates Principles

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

Directors' Liabilities

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

Going Concern

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

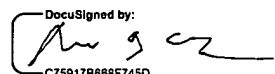
Disclosure of Information to the Auditors

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

Independent Auditors

PricewaterhouseCoopers LLP will resign as independent auditors after the approval of the 2020 financial statements and a resolution to appoint Ernst & Young LLP as independent auditors will be put to the members.

On behalf of the Board

DocuSigned by:


C75917B888F745D...
Andrew Osborne (Director)
22 July 2021

Company Registered No. 06418649

Chrysaor Limited

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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Balance Sheet as at 31 December 2020; Income Statement, Statement of Comprehensive Income and 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation and the Petroleum Act 1998, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to potential management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries made of the Board of Directors, certain key management personnel, internal audit, the Health, Safety, Environment, & Quality team and in-house legal team of their awareness of any instances of actual or potential litigation and claims.
- Enquiries made of the tax team to identify any instances of non-compliance with laws and regulations.
- Review of minutes of meetings of the Board of Directors.
- Review of financial statement disclosures and testing to supporting documentation where applicable, to assess compliance with applicable laws and regulations.
- Identifying and testing journal entries with specific focus on entries within unusual account combinations in response to the risk of management override.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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
22 July 2021

Chrysaor Limited

Income Statement

For the year ended 31 December

		2020 \$000	2019 \$000
	Note		
Revenue	3	1,710,459	2,011,183
Cost of sales		(964,822)	(1,157,701)
Gross profit		745,637	853,482
Exploration & Evaluation expenditure	4	(4,623)	(724)
Exploration costs written off	4	(13,985)	(163)
Re-measurements	4	(147,236)	(58,074)
Impairment of property, plant and equipment	4	(245,171)	-
Provision for onerous service contracts	4	(18,475)	-
General and administrative costs		(9,154)	(8,393)
Operating profit		306,993	786,128
Finance income	6	597	14,256
Finance expenses	6	(131,266)	(137,479)
Profit before taxation		176,324	662,905
Tax expense	7	(66,661)	(245,622)
Profit for the financial year		109,663	417,283

Statement of Comprehensive Income

		2020 \$000	2019 \$000
Profit for the financial year		109,663	417,283
Items that may be classified to income statement in subsequent periods			
Deferred tax arising from common control acquisition	7	-	(505)
Other comprehensive expense for the financial year, net of tax		-	(505)
Total comprehensive income for the financial year		109,663	416,778

The notes on pages 16 to 44 form part of these financial statements.

Chrysaor Limited

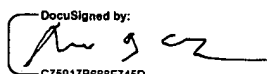
Balance Sheet

As at 31 December

		2020	2019
	Note	\$000	\$000
Non-current assets			
Goodwill	8	413,859	413,859
Exploration and evaluation assets	9	91,153	41,118
Property, plant and equipment	10	3,068,058	3,406,700
Right of use asset	11	8,189	9,401
Other financial assets	14	848,812	996,421
Total non-current assets		4,430,071	4,867,499
Current assets			
Inventories	13	76,463	89,746
Debtors: amounts falling due within one year	15	1,990,460	1,061,573
Cash and cash equivalents	16	116	5
Total current assets		2,067,039	1,151,324
Total assets		6,497,110	6,018,823
Current liabilities			
Creditors: amounts falling due within one year	18	(1,058,504)	(982,716)
Current tax liabilities		(165,069)	-
Lease Creditor	11	(1,994)	(1,933)
Provisions	20	(9,492)	-
Other financial liabilities	21	-	(12,495)
Total current liabilities		(1,235,059)	(997,144)
Non-current liabilities			
Creditors: amounts falling due after more than one year	19	(1,845,465)	(1,746,494)
Provisions	20	(1,694,047)	(1,360,077)
Deferred tax	7	(641,139)	(942,321)
Lease Creditor	11	(7,885)	(8,935)
Total non-current liabilities		(4,188,536)	(4,057,827)
Total liabilities		(5,423,595)	(5,054,971)
Net assets		1,073,515	963,852
Capital and reserves			
Called up share capital	22	-	-
Currency translation reserve		(5,221)	(5,221)
Retained earnings		1,078,736	969,073
Total equity		1,073,515	963,852

The notes on pages 16 to 44 form part of these financial statements.

The financial statements on pages 13 to 44 were approved by the Board of Directors on 22 July 2021 and signed on its behalf by:

DocuSigned by:

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Andrew Osborne (Director)

22 July 2021

Company Registration No: 06418649

Chrysaor Limited

Statement of Changes in Equity

For the year ended 31 December

	<i>Called Up Share capital \$000</i>	<i>Currency translation reserve \$000</i>	<i>Retained earnings \$000</i>	<i>Total equity \$000</i>
At 1 January 2019	-	(5,221)	552,295	547,074
Profit for the financial year	-	-	417,283	417,283
Other comprehensive expense	-	-	(505)	(505)
At 31 December 2019	-	(5,221)	969,073	963,852
Profit for the financial year	-	-	109,663	109,663
Other comprehensive expense	-	-	-	-
At 31 December 2020	-	(5,221)	1,078,736	1,073,515

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020

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

The financial statements of the Company for the year ended 31 December 2020 were authorised for issue by the board of directors on the 22 July 2021 and the balance sheet was signed on the board's behalf by Andrew Osborne.

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

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

2. Accounting Policies

Basis of Preparation

The financial statements are prepared under the historical cost convention, except for certain financial assets and liabilities (including derivative financial instruments) which have been measured at fair value, and are in accordance with The Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101). The financial statements are presented in US Dollars and all values are rounded to the nearest thousand dollars (\$000) except when otherwise stated.

The accounting policies which follow, set out those policies which apply in preparing the financial statements for the year ended 31 December 2020 under FRS 101. All accounting policies have been applied consistently, other than where new policies have been adopted. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 *Financial Instruments: Disclosures*,
- (b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*
- (c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1
 - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*; and
 - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*
- (d) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*
- (e) the requirements of IAS 7 *Statement of Cash Flows*
- (f) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- (g) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*
- (h) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member and
- (i) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*.

Going Concern

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

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Segment Reporting

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

Joint Arrangements

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

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

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

Foreign Currency Translation

The Company's functional currency and presentation currency is US Dollars.

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

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

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Company of an acquirer's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; 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

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

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

Acquisition of Interests in Joint Operations (under common control)

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

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

Goodwill

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

Goodwill, as disclosed in note 8, is reviewed for impairment at least annually by assessing the recoverable amount of the cash generating units (CGU's) to which the goodwill relates. Where the carrying amount of the CGU and related goodwill is higher than the recoverable amount of the CGU, an impairment loss is recognised in the income statement. Impairment losses relating to goodwill cannot be reversed in future periods. Consistent with the reporting segment, the CGU for the purposes of the goodwill test is the UK Continental Shelf ('UKCS').

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 the 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.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

(c) Exploration and Evaluation Costs

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

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

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

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

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

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

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

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

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 in the Income statement.

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

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Impairment of Non-Current Assets (Excluding Goodwill)

In accordance with IAS 36, impairment tests are carried out on items of property, plant and equipment and intangible assets where there is an indication that the assets may be impaired. Such indications may be based on events or changes in the market environment, or on internal sources of information.

Impairment indicators

Property, plant and equipment and intangible assets with finite useful lives are only tested for impairment when there is an indication that they may be impaired. This is generally the result of significant changes to the environment in which the assets are operated or when asset performance is worse than expected.

The main impairment indicators used by the Company are described below:

- external sources of information:
 - significant changes in the economic, technological, political or market environment in which the entity operates or to which an asset is dedicated
 - fall in demand; and
 - changes in energy prices and exchange rates
- internal sources of information:
 - evidence of obsolescence or physical damage
 - worse than expected production or cost performance
 - reduction in reserves and resources, including as a result of unsuccessful results of drilling operations
 - pending expiry of licence or other rights; and
 - in respect of capitalised exploration and evaluation costs, lack of planned future activity on the prospect or licence.

Measurement of recoverable amount

In order to review the recoverable amount in an impairment test, the assets are grouped, where appropriate, into CGUs and the carrying amount of each unit is compared with its recoverable amount. The recoverable amount of an asset corresponds to the higher of its fair value less costs of disposal and its value in use. The recoverable amount is primarily determined based on the fair value less cost of disposal method. Standard valuation techniques are used based on the discount rates based on the specific characteristics of the operating entities concerned; discount rates are determined on a post-tax basis and applied to post-tax cash flows.

Any impairment loss is recorded in the consolidated income statement under 'Impairment of property, plant and equipment'. Impairment losses recorded in relation to property, plant and equipment may be subsequently reversed if the recoverable amount of the assets subsequently increases above carrying value. The increased carrying amount of an item of property, plant or equipment attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised in prior periods.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

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).

Financial assets held at amortised cost

Financial assets held at amortised cost are initially measured at fair value except for trade debtors which are initially measured at cost. Both are subsequently carried at amortised cost using the effective interest rate (EIR) method, less impairment. The EIR amortisation is presented within finance income in the income statement.

Cash and Cash Equivalents

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

Impairment of Financial Assets

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

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

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

Credit Impaired Financial Assets

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

- significant financial difficulty of the borrower or issuer
- a breach of contract such as default or past due event
- the restructuring of a loan or advance by the Company on terms that the Company would otherwise not consider
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation, or
- the disappearance of an active market for a security because of financial difficulties

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

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

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

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Derecognition

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

c. Derivative Financial Instruments

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

d. Fair Values

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

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

Equity

Share Capital

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

Currency Translation Reserve

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

Inventories

Hydrocarbon inventories are stated at fair value less cost to sell with movements recognised in the income statement (see Over/underlift section on page 25). Inventories are stated at the lower of cost and net realisable value. The cost of materials is the purchase cost, determined on the first-in, first-out basis.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Leases

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the lease term or useful life. The Company recognises right-of-use assets and lease liabilities on a gross basis and the recovery of lease costs from joint operations' partners is recorded as other income.

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

The lease payments are discounted using the Company's incremental borrowing rate of 5.9 percent, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

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

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

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

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

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

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

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.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

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

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

Taxes**i. Current Tax**

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

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

ii. Deferred Tax

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

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

Revenue from Contracts with Customers

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

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Over/Underlift

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

Interest Income

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

Borrowing Costs

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

New Accounting Standards and Interpretations

The Company adopted new and revised accounting standards and interpretations relevant to its business and effective for accounting periods beginning on or after 1 January 2020, including:

Amendments to IFRS 3: Definition of a business

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

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

Amendments to IAS 1 and IAS 8: Definition of material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

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

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

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Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Accounting Standards Issued But Not Yet Effective

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

IFRS17 insurance contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted as long as IFRS 9 is also applied. The standard combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract. Insurance service results (including presentation of insurance revenue) are presented separately from insurance finance income or expenses. It also requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income. The Company does not expect any existing contracts to be impacted by the new standard however, this will be assessed closer to adoption of 1 January 2023.

Amendments to IAS 1, 'Presentation of financial statements' - classification of liabilities as current or non-current

On 23 January 2020, the IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The Company will consider if its liabilities are either current or non-current when the standard is effective from 1 January 2023.

IBOR reform and the effects on financial reporting

The International Accounting Standards Board (Board) issued Interest Rate Benchmark Reform—Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases. The Board identified two groups of accounting issues that could have financial reporting implications. In 2019, the Board issued its initial amendments in Phase 1 of the project, applicable to 2020 reporting, it covers reporting in the period before the replacement of an existing interest rate benchmark with an alternative RFR (Risk Free Rate). This addressed hedge accounting requirements: the highly probable requirement; prospective assessments; and separately identifiable risk components. The Company has assessed the requirements of Phase 1 which apply for the first time in 2020, none of which impact the financial statements of the Company because there is no material hedge accounting of interest rate exposures. Phase 2 addresses financial reporting when an existing interest rate benchmark is replaced with an alternative RFR, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). The Company has not early adopted Phase 2 requirements.

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Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Critical Accounting Judgements and Estimates

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

Judgements

- ***Exploration and Evaluation Expenditure***

As at 31 December 2020, the Company held a balance of \$91.2 million (2019: \$41.1 million) relating to expenditure on unproved hydrocarbon resources within other intangible assets which represent active exploration and evaluation activities. 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

- ***Goodwill***

The Company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the income statement.

The recoverable amount of goodwill is based on estimates and assumptions, regarding in particular the expected market outlook (including future commodity prices) used for the measurement of cash flows, estimates of the volume of commercially recoverable reserves and resources of oil and gas future production rates and costs to develop reserves and resources, and the determination of the discount rate. Any changes in these assumptions may have a material impact on the measurement of the recoverable amount and could result in adjustments to any impairment losses to be recognised. See note 8 for further information.

Impairment losses relating to goodwill cannot be reversed in future periods.

- ***Recoverability of oil and gas assets***

For impairment review purposes, the Company's oil and gas assets are analysed into cash-generating units (CGUs) as identified in accordance with IAS36. A review is carried out at each reporting date for any indicators that the carrying value of the Company's assets may be impaired. 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, then compared to the carrying value of the asset or CGU. The assessments of fair value less cost of disposal, generally referenced by the present value of the future net cash flows

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Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

expected to be derived from production of commercial reserves, requires the use of estimates and assumptions on uncontrollable parameters such as long-term oil prices (considering current and historical prices, price trends and related factors), foreign exchange rates and discount rates.

The Company's estimate of the recoverable value of its assets is sensitive to commodity prices and exchange rates. A change in the long-term price assumptions of 10 percent, and an increase in the long-term foreign exchange rate of 4 percent are considered to be reasonably possible for the purposes of sensitivity analysis, the results of which can be found in note 10.

- *Decommissioning Costs*

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The Company assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, and the expected timing, extent and amount of expenditure. On the basis that all other assumptions in the calculation remain the same, a 10 percent increase in the cost estimates, and a 10 percent decrease in the discount rates used to assess the final decommissioning obligation, would result in increases to the decommissioning provision of approximately \$238 million and \$52 million respectively. This change would be principally offset by a change to the value of the associated asset.

- *Acquisition of Interests in Joint Operations*

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

- *Climate change*

The Company recognises that there may be potential financial implications in the future from climate change risk. The Company expects that climate change policies, legislation and regulation will increase, and likely on accelerating timelines in order to meet the Government targets which, although will result in intended benefits, is likely to increase associated costs and administration requirements as well as potentially limiting the investment capital available to the industry. These in due course may well have an impact across a number of areas of accounting including impairment, fair values, increased costs, onerous contracts and contingent liabilities. However as at the balance sheet date the Company believes there is no material impact on balance sheet carrying values of assets or liabilities. Although this is an estimate, it is not considered a critical estimate, as management's view is that at the end of the current reporting period there is no significant risk of climate change resulting in a material adjustment to the carrying amounts of assets and liabilities, within the next financial year.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

3. Revenue

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

	2020 \$000	2019 \$000
Crude oil sales	1,107,977	1,386,619
Gas sales	498,995	482,000
Condensate and liquefied petroleum gas sales	88,215	129,471
Other sundry sales	149	44
Tariff income	15,123	13,049
	<u>1,710,459</u>	<u>2,011,183</u>

Revenues of \$986.6 million (2019: \$1,873.1 million) were from contracts with customers. This was increased by realised hedging gains on crude and gas sales in the year of \$723.9 million (2019: losses of \$138.1 million) and realised gains on carbon emissions swaps of \$0.1 million (2019: nil). Approximately 95 percent (2019: 96 percent) of the revenues were attributable to energy trading companies of the Shell group.

4. Operating Profit

This is stated after charging/(crediting):

	2020 \$000	2019 \$000
Depreciation - oil and gas producing assets	629,338	681,456
Impairment of property, plant and equipment	245,171	-
Movement in over/under-lift balances and hydrocarbon inventories	(107,103)	20,062
Exploration & evaluation expenditure	4,623	724
Exploration costs written off	13,985	163
Provision for onerous service contracts	18,475	-
Re-measurement of royalty valuation	1,300	(2,400)
Re-measurement of contingent consideration for commodity price	-	7,198
Re-measurement of exploration contingent consideration	-	(7,773)
Re-measurement of derivatives	145,936	61,049
Auditors' remuneration - audit of the financial statements	166	129

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 at 31 December 2020, CHL.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Operating Profit (continued)

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

During the year, CEPFL, on behalf of the Company, entered into a combination of fixed price physical sales contracts and cash-settled financial commodity derivatives to manage the price risk associated with the Company's underlying oil and gas revenues, and cash-settled financial carbon swaps to manage the price risk associated with the Company's carbon emissions costs. Back to back agreements were put in place for the derivative contracts with the Company. The Company incurred a loss of \$145.9 million (2019: loss of \$61.0 million) due to the fair value movement on these back to back derivatives. An amount of \$41.8 million (2019: \$179.1 million) is included as a receivable within amounts due from fellow subsidiary undertakings in more than one year (notes 14) and \$116.3 million (2019: \$130.8 million) is included as a receivable within amounts due from fellow subsidiary undertakings in less than one year (note 15).

5. Staff Cost and Directors' Remuneration

The Company had no employees during the year (2019: nil).

	2020	2019
	\$000	\$000
Directors' remuneration		
Directors' remuneration	2,172	1,952
Payments made in lieu of pension contributions	213	171
Pension	11	20
	<u>2,396</u>	<u>2,143</u>

The directors' remuneration refers to the total salaries, other emoluments and benefits paid to directors of the Company by fellow subsidiary, Chrysaor E&P Services Limited (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:

	2020	2019
	\$000	\$000
Directors' remuneration	1,259	1,114
Payments made in lieu of pension contributions	129	101
Pension	6	10
	<u>1,394</u>	<u>1,225</u>

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

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

6. Finance Income and Finance Expenses

	2020 \$000	2019 \$000
Finance income		
Other interest receivable	18	75
Intercompany interest on other loans	579	14,181
	<u>597</u>	<u>14,256</u>
Finance expenses		
Intercompany interest expense on bank loans	(45,387)	(60,727)
Intercompany interest on other loans	(2,061)	(687)
Bank and financing fees	(18,833)	(34,717)
Unwinding of discount on decommissioning provisions (note 20)	(33,399)	(36,690)
Unwinding of discount on contingent consideration (note 20)	-	(83)
Other interest payable	(109)	(382)
Lease interest payable	(623)	(625)
Foreign exchange loss	(30,854)	(3,568)
	<u>(131,266)</u>	<u>(137,479)</u>
Net Finance expenses	<u>(130,669)</u>	<u>(123,223)</u>

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

Intercompany interest on other loans represents interest passed through from CEPFL which arose from the financing arrangement entered into during 2018 on behalf of the Company. The financing arrangement is with 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 \$6.3 million (2019: \$11.2 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.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

7. Tax Expense

(a) Tax expensed in the income statement

The major components of income tax expense for the years ended 31 December 2020 and 2019 are:

	2020 \$000	2019 \$000
Current income tax:		
UK corporation tax	367,465	109,972
Amounts under provided in previous year	378	5,533
Total current income tax expense	<u>367,843</u>	<u>115,505</u>
Deferred tax:		
Origination and reversal of temporary differences	(299,444)	142,875
Amounts (over) provided in previous year	(1,738)	(12,758)
Total deferred tax (credit)/expense	<u>(301,182)</u>	<u>130,117</u>
Tax expense in the income statement	<u>66,661</u>	<u>245,622</u>

(b) Reconciliation of the total tax expense

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

	2020 \$000	2019 \$000
Profit before taxation	<u>176,324</u>	<u>662,905</u>
Tax calculated at UK standard rate of corporation tax for UK ring-fence companies of 40% (2019: 40%)	70,530	265,162
Effects of:		
Items not allowable for tax purposes	3,522	(876)
Adjustments recognised for current tax of prior periods	(1,360)	(7,225)
Interest not deductible for supplementary charge	6,836	(11,474)
Transfer pricing adjustment	-	(2,756)
Investment allowance	(14,960)	-
Effects of group and other reliefs	2,008	1,910
Recognition of previously unrecognised losses	85	892
Impact of losses relieved at different rates	-	(11)
Total tax expense reported in the income statement	<u>66,661</u>	<u>245,622</u>

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Tax Expense (continued)

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

	<i>Accelerated Capital Allowances</i> \$000	<i>Abandonment</i> \$000	<i>Investment Allowance</i> \$000	<i>Losses</i> \$000	<i>Fair value on derivatives</i> \$000	<i>Total</i> \$000
<i>As at 1 January 2019</i>	(1,409,167)	445,597	31,321	258,922	(138,372)	(811,699)
Deferred tax credit/(expense)	46,292	91,617	(31,321)	(258,922)	22,217	(130,117)
Acquisition accounting	(2,482)	1,977	-	-	-	(505)
<i>At 31 December 2019</i>	<u>(1,365,357)</u>	<u>539,191</u>	<u>-</u>	<u>-</u>	<u>(116,155)</u>	<u>(942,321)</u>
Deferred tax credit	115,391	132,792	-	-	52,999	301,182
<i>At 31 December 2020</i>	<u>(1,249,966)</u>	<u>671,983</u>	<u>-</u>	<u>-</u>	<u>(63,156)</u>	<u>(641,139)</u>

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 2020. These profit forecasts showed sufficient future taxable income to recognise the deferred tax asset.

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

The Company has no non-trading tax losses (2019: \$2.2 million) that may potentially be available for offset against future taxable non-trading profits. No associated deferred tax asset (2019: \$0.9 million) has been recognised.

Changes in tax rate

Legislation was introduced in Finance Act 2021 to increase the main rate of UK corporation tax for non-ring fence profits from 19 percent to 25 percent from 1 April 2023. This is not expected to have a material impact on the Company.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

8. Goodwill

\$000

At 31 December 2019 and 31 December 2020

413,859

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

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

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

Impairment testing of goodwill

In accordance with 'IAS 36: Impairment of Assets', goodwill has been reviewed for impairment at the year-end. In assessing whether goodwill has been impaired, the carrying amount of the CGU for goodwill is compared with its recoverable amount.

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.

Determining recoverable amount

The recoverable amounts of the CGU and fields have been determined on a fair value less costs to sell basis. The key assumptions used in determining the fair value are often subjective, such as the future long-term oil price assumption, or the operational performance of the assets. Discounted cash flow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy) have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax and post-decommissioning basis at the Group's post-tax discount rate of 6 percent (2019: 6 percent). Risks specific to assets within the CGU are reflected within the cash flow forecasts.

Key assumptions used in calculations

Assumptions involved in impairment measurement include estimates of commercial reserves and production volumes, future oil and gas prices, discount rates and the level and timing of expenditures, all of which are inherently uncertain.

Management's commodity price curve assumptions are benchmarked against a range of external forward price curves on a regular basis. The first three years reflect the market forward price curves transitioning to a flat long-term price from 2023. The long-term commodity prices used were \$60 per barrel for crude and 40p per therm for gas.

Production volumes are based on life of field production profiles for each asset within the CGU. Proven and probable reserves are estimates of the amount of oil and gas that can be economically extracted from the Company's oil and gas assets. The Company estimates its reserves using standard recognised evaluation techniques and is assessed at least annually by management and by an independent consultant. Proven and probable reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Goodwill (continued)

Operating expenditure, capital expenditure and decommissioning costs are derived from the Group's Business Plan.

The discount rate reflects management's estimate of the Group's Weighted Average Cost of Capital (WACC), considering both debt and equity. The cost of equity is derived from an expected return on investment by the Group's investors, and the cost of debt is based on its interest-bearing borrowings. Segment risk is incorporated by applying a beta factor based on publicly available market data. The discount rate is based on an assessment of a relevant peer group's post-tax WACC.

Foreign exchange rates are based on management's long-term rate assumptions, with reference to a range of underlying economic indicators.

Sensitivity to changes in assumptions used in calculations

The Company has run sensitivities on its long-term commodity price assumptions, which have been based on long range forecasts from external financial analysts, using alternate long-term price assumptions, and foreign exchange rates. These are considered to be reasonably possible changes for the purposes of sensitivity analysis. Sensitivity analysis indicates that a 10 percent reduction in the long-term oil and gas price deck applied in the impairment test would result in an impairment to goodwill of \$128.2 million. A 4 percent increase in the long-term foreign exchange rate assumption would not result in an impairment to goodwill.

9. Exploration and Evaluation Assets

	<i>Exploration & Evaluation assets \$000</i>
At 1 January 2020	41,118
Additions	65,790
Transfer to producing assets	(1,770)
Amounts written-off	(13,985)
At 31 December 2020	<u>91,153</u>

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

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

10. Property, Plant and Equipment

*Oil & gas
development
& production
assets
\$000*

Cost:

At 1 January 2020	4,751,975
Additions	238,523
Transfer of Exploration and Evaluation Assets	1,770
Increase in decommissioning asset	295,574
At 31 December 2020	<u>5,287,842</u>

Accumulated Depreciation:

At 1 January 2020	1,345,275
Charge for the year	629,338
Impairment charge	245,171
At 31 December 2020	<u>2,219,784</u>

Net book value:

At 31 December 2020	<u>3,068,058</u>
At 31 December 2019	<u>3,406,700</u>

During the year, the Company recognised a net pre-tax impairment charge of \$245.2 million (post-tax \$147.1 million) within the income statement.

This arises primarily due to the reduction in commodity price assumptions for impairment purposes to \$60 per barrel for crude oil and 40p per therm for natural gas rather than a fundamental change in the nature of the producing assets. Impairments on property, plant and equipment are potentially reversible in the future.

While the strong hedge programme has protected the balance sheet position and revenue performance, the programme cannot be taken into account for impairment purposes.

Key assumptions used in calculations

Assumptions involved in impairment measurement include estimates of commercial reserves and production volumes, future oil and gas prices, discount rates and the level and timing of expenditures, all of which are inherently uncertain.

The Company uses the fair value less cost of disposal method (FVLCD) to calculate the recoverable amount of the cash generating units (CGU) consistent with a level 3 fair value measurement. In determining FVLCD, appropriate discounted-cash-flow valuation models were used, incorporating market-based assumptions. Management's commodity price curve assumptions are benchmarked against a range of external forward price curves on a regular basis. Individual field price differentials are then applied. The first three years reflect the market forward price curves transitioning to a flat long-term price from 2023. The long-term commodity prices used were \$60 per barrel for crude and 40p per therm for gas.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Property, plant and equipment (continued)

Production volumes are based on life of field production profiles for each asset within the CGU. Proven and probable reserves are estimates of the amount of oil and gas that can be economically extracted from the Company's oil and gas assets. The Company estimates its reserves using standard recognised evaluation techniques and is assessed at least annually by management and by an independent consultant. Proven and probable reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices.

Operating expenditure, capital expenditure and decommissioning costs are derived from the Company's Business Plan. The discount rate reflects management's estimate of the Company's Weighted Average Cost of Capital (WACC), see note 10 for further details. Foreign exchange rates are based on management's long-term rate assumptions, with reference to a range of underlying economic indicators.

A reduction or increase in the long-term oil and gas prices of 10 percent are considered to be reasonably possible changes for the purpose of sensitivity analysis. Decreases to the long-term oil and gas prices specified above would result in a further post-tax impairment of \$172.8 million. A 10 percent increase in the long-term oil and gas price deck would reduce the post-tax impairment charge by \$67.9 million. Considering the foreign exchange rates, an increase in the long-term foreign exchange rate assumption of 4 percent which the Company believes to be a reasonable possibility, would result in a further impairment of \$73.9 million. The impairment was calculated as detailed above.

An increase of \$295.6 million to decommissioning assets was recognised in the year, including \$9.2 in respect of new decommissioning liabilities and \$286.4 million as a result of an update to decommissioning estimates (note 20).

11. Right of Use Assets

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

Right of Use Assets	2020 \$000	2019 \$000
Land and buildings	8,189	9,401
Lease Liabilities	2020 \$000	2019 \$000
Current	1,994	1,933
Non-Current	7,885	8,935
	9,879	10,868

There were no additions to the right-of-use assets during the year (2019: \$10.6m).

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Right of Use Assets (continued)

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

Depreciation charge of Right of Use Assets

	2020 \$000	2019 \$000
Land and buildings	1,212	1,199
	2020 \$000	2019 \$000
Lease interest (included in finance expenses - note 6)	623	625

The total cash outflow for leases in 2020 was \$1.9 million (2019: \$0.8 million).

Expenses related to both short-term and low value lease arrangements are considered to be immaterial for reporting purposes.

12. Acquisition of Interests in Joint Arrangements

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

(a) North Everest acquisition

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

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

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

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

13. Inventories

	2020	2019
	\$000	\$000
Hydrocarbons	12,189	32,586
Consumables and subsea supplies	64,274	57,160
	<u>76,463</u>	<u>89,746</u>

Hydrocarbon inventories are measured at net realisable value. Inventories of consumables and subsea supplies include a provision of \$8.9 million (2019: \$9.7 million) where it is considered that the net realisable value is lower than the original cost.

Inventories recognised as an expense during the year ended 31 December 2020 amounted to \$1.7 million (2019: \$6.7 million).

14. Other Financial Assets

	2020	2019
	\$000	\$000
Royalty consideration	6,720	9,100
Deferred expenses	16,118	23,961
Amounts owed by immediate parent undertaking	784,212	784,212
Amounts owed by fellow subsidiaries	41,762	179,148
	<u>848,812</u>	<u>996,421</u>

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 2020, the Company valued the outstanding consideration receivable at \$9.7 million (2019: \$12.1 million) of which \$3.0 million (2019: £3.0 million) is considered to be receivable within one year (refer to note 15).

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

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

15. Debtors: Amounts falling due within one year

	2020	2019
	\$000	\$000
Royalty consideration (note 14)	3,000	3,000
Trade debtors	41,341	79,123
Under-lift position	83,392	11,295
Amounts owed by fellow subsidiaries	1,774,261	895,792
Loan amounts owed by fellow subsidiaries	13,024	12,623
Amounts owed by ultimate parent undertaking	604	604
Amounts due by fellow subsidiaries in respect of taxation	1,817	-
Corporation tax receivable	-	2,996
Other debtors	14,080	2,107
Deferred expenses	7,843	6,251
Prepayments and accrued income	51,098	47,782
	<u>1,990,460</u>	<u>1,061,573</u>

Trade receivables are non-interest bearing and are generally on 20 to 30 days' terms. As at 31 December 2020, no ECLs have been recognised relating to any trade or intercompany receivable balance (2019: \$nil). All amounts owed by parent and subsidiary undertakings are unsecured, interest free and are repayable on demand.

16. Cash and Cash Equivalents

	2020	2019
	\$000	\$000
Cash at bank and in hand	<u>116</u>	<u>5</u>

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

17. Commitments

Capital commitments

As at 31 December 2020, the company had placed contracts for capital expenditure amounting to \$147,404,000 (2019: \$382,851,000). 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.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

18. Creditors: Amounts falling due within one year

	2020 \$000	2019 \$000
Trade creditors	38,789	49,807
Over-lift position	9,417	64,820
Amounts owed to fellow subsidiaries	608,631	441,251
Amounts owed to immediate parent undertaking	261,246	267,501
Amounts owed to ultimate parent undertaking in respect of taxation	3,366	3,804
Amounts owed to fellow subsidiaries in respect of taxation	9,171	10,512
Other creditors	-	480
Accruals and deferred income	127,884	144,541
	<u>1,058,504</u>	<u>982,716</u>

Included in amounts owed to fellow subsidiaries is the short-term element of a loan balance of \$2.5 million (2019: \$0.6 million) in respect of a financing agreement between CEPFL and BHGE. See note 6 for further details. This loan was passed through to the Company.

Other intercompany balances

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

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

	2020 \$000	2019 \$000
Loans owed to fellow subsidiary undertakings	960,272	861,301
Loans owed to ultimate parent undertaking	885,193	885,193
	<u>1,845,465</u>	<u>1,746,494</u>

Group borrowings passed through to the Company

Included in amounts owed to fellow subsidiary undertakings is the \$550.4 million and \$400.0 million in relation to the long-term repayable elements of the senior and junior debt respectively. These amounts were drawn at group level to fund the acquisition of the UK North Sea Assets from Shell and to part fund the 2019 asset related capital program. The terms secured at group level have been passed down to the Company.

The Senior facility at the balance sheet date carries interest at USD LIBOR plus a margin of 3.25 percent, rising to a margin of 3.5 percent from June 2023. Certain fees are also payable including fees on available commitments at 40% of the applicable margin and commission on letters of credit issued at 50% of the applicable margin.

The Junior facility at the balance sheet date carries interest at six-month USD LIBOR plus a margin of 5.25 percent, rising to a margin of 5.5 percent from June 2023, and is repayable in semi-annual instalments between 30 June 2022 and 30 June 2026.

Also included in amounts owed to fellow subsidiary undertakings is \$9.9 million (2019: \$11.3 million) which represents the long-term payable balance in respect of a financing agreement between CEPFL with BHGE, details of which are disclosed in note 6.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Creditors: Amounts falling due after more than one year (continued)

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

Other intercompany balances

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

20. Provisions

	Decommissioning provision \$000	Other \$000	Total \$000
At 1 January 2020	1,360,077	-	1,360,077
Additions	9,231	18,475	27,706
Amounts recovered from prior owner	3,997	-	3,997
Change in estimate - increase in decommissioning asset	286,343	-	286,343
Utilisation of provision	(3,371)	(5,429)	(8,800)
Unwinding of discount	33,399	-	33,399
Currency translation adjustment	-	817	817
At 31 December 2020	1,689,676	13,863	1,703,539

Classified within:

	Non-current liabilities \$000	Current Liabilities \$000	Total \$000
At 31 December 2020	1,694,047	9,492	1,703,539
At 31 December 2019	1,360,077	-	1,360,077

The Company provides for the estimated future decommissioning costs on its oil and gas assets at the balance sheet date. The payment dates of expected decommissioning costs are uncertain and are based on economic assumptions of the fields concerned. The Company currently expects to incur decommissioning costs over the next 30 years, the majority of which are anticipated to be incurred between the next 10 to 20 years. Decommissioning provisions are discounted at a risk-free rate of 1.7 percent (2019: 2.6 percent) and the unwinding of the discount is presented within finance costs (note 6).

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.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Provisions (continued)

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 a provision for an onerous contract in respect of the termination cost of the rig which had been operating on the Schiehallion field, but no future approved activities have resulted in the contract being terminated.

21. Other Financial Liabilities

	2020 \$000	2019 \$000
<i>Measured at fair value</i>		
Commodity derivatives - contingent consideration	-	(12,495)
Total current	-	(12,495)
<i>Measured at fair value</i>		
Commodity derivatives - contingent consideration	-	-
Total non-current	-	-
Total current and non-current	-	(12,495)

The contingent consideration in relation to the package of assets acquired from Shell in 2017 was fully settled in March 2020 and as a result there were no further movements on the fair value of crude based derivative instruments reported through the income statement.

22. Called Up Share Capital

	2020 No.	2019 No.	2020 \$000	2019 \$000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	1	1	-	-

There was no issuance of ordinary or preference shares in 2020 or 2019.

23. Post Balance Sheet Events

On 31 March 2021, the Group completed the all-share merger with Premier Oil plc forming the largest independent oil and gas company listed on the London Stock Exchange.

In April 2021, the Company entered into an agreement to transfer its non-operated interests in the Buzzard, Schiehallion, Elgin/Franklin and Glenelg fields (including interests in the SEAL and GAEL pipelines) to Premier Oil UK Limited. The primary strategic rationale for these transfers is to enhance the financial resilience of Premier Oil UK Limited by transferring assets which each generate reliable positive cash flow.

Chrysaor Limited

Notes to the Financial Statements

For the year ended 31 December 2020 (continued)

Post Balance Sheet Events (continued)

The transfers are part of a wider co-ordinated plan to enhance the financial resilience of Premier Oil UK Limited, which is to the benefit of the entire enlarged group. A secondary objective is to consolidate the enlarged group's interests in the Elgin/Franklin and Glenelg assets and SEAL and GAEL pipelines in Premier Oil UK Limited, and to also consolidate the enlarged group's West of Shetland interests to create a cohesive West of Shetland business unit. The consolidation will also generate future operational efficiencies.

The transfers of the Buzzard and Schiehallion fields completed on 1 July 2021 and the transfer of the Elgin/Franklin and Glenelg fields (including interests in the SEAL and GAEL pipelines) is expected to complete on 1 August 2021.

24. Related Party Disclosure

In accordance with FRS101.8 (k), the Company is exempt from the requirement to disclose group related party transactions since the Company is 100 percent controlled within the Group and the Group's financial statements of the Company's ultimate parent undertaking at 31 December 2020, CHL, are publicly available from Companies House.

25. Ultimate Parent Undertaking and Controlling Party

The Company's immediate parent company is Chrysaor E&P Limited and, as at 31 December 2020, the Company's ultimate parent company was Chrysaor Holdings Limited (CHL).

At 31 December 2020, the ultimate controlling party, and the largest group of undertakings for which group financial statements are prepared, and of which the Company is a member, was Harbour Energy Holdings Limited, a company incorporated in the Cayman Islands.

At 31 December 2020, the smallest group of undertakings for which group financial statements are prepared, and of which the Company is a member, was CHL. The consolidated financial statements of CHL are publicly available from Companies House.

On 31 March 2021, the Group completed the all-share merger with Premier Oil plc forming the largest independent oil and gas company listed on the London Stock Exchange. Following completion of the transaction, the Company's ultimate and controlling parent is Harbour Energy plc a company incorporated in Great Britain and registered in Scotland.