

Chrysaor (U.K.) Sigma Limited

Registered Company Number 07832693

Report and Financial Statements

31 December 2020



Chrysaor (U.K.) Sigma Limited

Index

	Page
Corporate Information	2
Strategic Report	3
Directors' Report	5
Statement of Directors' Responsibilities	7
Independent Auditors' Report	8
Income Statement	11
Balance Sheet	12
Statement of Changes in Equity	13
Notes to the Financial Statements	14

Chrysaor (U.K.) Sigma 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. 07832693

Chrysaor (U.K.) Sigma 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 (U.K.) Sigma Limited (the “Company”) was part of the Chrysaor group of companies (the “Group”). On 30 September 2019, the Group completed the acquisition of two ConocoPhillips UK subsidiaries, including an intermediate parent of the Company, from ConocoPhillips Company.

The Company’s immediate parent company is Chrysaor Production (U.K.) Limited. As at 31 December 2020, the Company’s ultimate parent company was Chrysaor Holdings Limited (“CHL”) and the ultimate controlling party was Harbour Energy Holdings Limited.

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

The Company also holds the Group’s investment in Chrysaor (U.K.) Theta Limited and Chrysaor (U.K.) Lambda Limited.

Business Review

The Company has a 7.5 percent interest in the BP-operated Clair field. Clair Phase 1 production began in 2005 and first production from Clair Ridge (the second phase of field development) was achieved in November 2018 from the first of two pre-drilled wells.

During 2020, a high Phase 1 production efficiency was offset by delayed drilling and poorer performance on Clair Ridge. The Ridge development has executed eight of their sanctioned 36-wells to date. A ninth well has been drilled and completed. These are producing lower than their pre-drill expectations and three have seen water breakthrough. This is not unexpected given the nature of the reservoir. Near-term production from Clair Ridge is lower than predicted. Optional infill campaigns, beyond the sanctioned wells, are under consideration.

Financial Performance and Position

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

Production for 2020 averaged 5.0 mboepd compared to 4.9 mboepd during 2019.

The Company generated revenue of \$52.1 million for the year (2019: \$80.7 million) and an operating profit of \$9.6 million was recognised during the year (2019: \$47.9 million).

The Company received no dividend income from its subsidiaries during the year (2019: \$50.6 million).

Net financing costs for the year totalled \$26.2 million (2019: \$22.6 million). Taxation expense amounted to \$7.7 million (2019: \$20.6 million), split between the current tax expense of \$6.5 million (2019: \$13.0 million) and a deferred tax expense of \$1.1 million (2019: \$7.6 million). Loss after tax for the year was \$24.3 million (2019: profit of \$55.4 million).

During the year, the Company incurred capital spend of \$0.9 million (2019: \$3.5 million) in relation to exploration and evaluation assets and \$12.5 million (2019: \$23.4 million) in relation to property, plant and equipment.

Chrysaor (U.K.) Sigma Limited

Strategic Report (continued)

Balance Sheet and Capital Structure

At 31 December 2020, the balance sheet showed net assets of \$439.6 million (2019: \$463.9 million), consisting of non-current assets of \$1,188.9 million (2019: \$1,185.8 million), net current liabilities of \$567.5 million (2019: \$561.9 million) and non-current liabilities of \$181.8 million (2019: \$160.0 million).

Total equity balance of \$439.6 million (2019: \$463.9 million) consists of share capital of \$13,000 (2019: \$13,000), share premium of \$96.8 million (2019: \$96.8 million) and retained earnings of \$342.8 million (2019: \$367.1 million).

Insurance

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

Key Performance Indicators (KPIs)

The Group's activities consist of one class of business being the acquisition, 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.

Principal Risks and Uncertainties

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

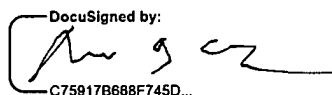
Section 172 Companies Act 2006

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:

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Andrew Osborne (Director)

31 August 2021

Chrysaor (U.K.) Sigma 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 loss for the financial year amounted to \$24.3 million (2019: profit of \$55.4 million). During the year the Company did not pay any dividends (2019: \$50.6 million). The directors do not recommend the payment of a final dividend (2019: \$nil).

Financial Instruments

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

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

Future Developments

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

Post Balance Sheet Events

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.

On 1 June 2021, a 60% non-operated interest in the Group operated Callanish field was transferred to the Company from Chrysaor Production (U.K.) Limited for cash consideration of £1.

In April 2021, the Company entered into an agreement to transfer its 7.5% interest in the non-operated Clair field to Premier Oil UK Limited. The primary strategic rationale for this transfer is to enhance the financial resilience of Premier Oil UK Limited by transferring an asset which generates positive cash flow over an extended period of time. The transfer is 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 West of Shetland interests in Premier Oil UK Limited to create a cohesive West of Shetland business unit. This transaction completed on 1 August 2021.

On 16 August 2021, two new GBP denominated loans of £8.8 million and £439.2 million were advanced by the Company's parent company, Chrysaor Production (U.K.) Limited, for the purpose of repaying an existing GBP denominated loan of £448 million due by the Company to Chrysaor Production (U.K.) Limited. On 17 August 2021, the loan of £8.8 million was assigned by Chrysaor Production (U.K.) Limited to Chrysaor (U.K.) Delta Limited in consideration for £8.8 million, such amount being left outstanding as a loan owing by Chrysaor (U.K.) Delta Limited to Chrysaor Production (U.K.) Limited.

Chrysaor (U.K.) Sigma Limited

Directors' Report (continued)

On 17 August 2021, Chrysaor Production (U.K.) Limited and Chrysaor (U.K.) Delta Limited subscribed for additional shares in the Company, pro-rata to their existing shareholdings, totalling £448 million (at par value and credited as fully paid in cash), in consideration for which the loans owing by the Company to Chrysaor Production (U.K.) Limited and Chrysaor (U.K.) Delta Limited were released.

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.

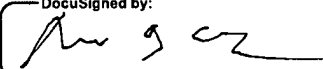
Disclosure of Information to the Auditors

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:

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Andrew Osborne (Director)
31 August 2021

Company Registered No. 07832693

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent auditors' report to the members of Chrysaor (U.K.) Sigma Limited

Report on the audit of the financial statements

Opinion

In our opinion, Chrysaor (U.K.) Sigma 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: Balance Sheet as at 31 December 2020; Income Statement 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 in respect of the financial statements, 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
31 August 2021

Chrysaor (U.K.) Sigma Limited

Income Statement

For the year ended 31 December

	Note	2020 \$000	2019 \$000
Revenue	3	52,107	80,721
Cost of sales		<u>(42,387)</u>	<u>(32,641)</u>
Gross profit		9,720	48,080
Exploration and evaluation expenses		<u>(81)</u>	<u>(135)</u>
Operating profit	4	9,639	47,945
Income from shares in group undertakings		<u>-</u>	<u>50,616</u>
Profit before interest and taxation		9,639	98,561
Finance income	6	-	41
Finance expenses	6	<u>(26,237)</u>	<u>(22,594)</u>
(Loss)/profit before taxation		(16,598)	76,008
Tax expense	7	<u>(7,674)</u>	<u>(20,644)</u>
(Loss)/profit for the financial year		<u><u>(24,272)</u></u>	<u><u>55,364</u></u>

No other comprehensive income or expense arose during the year ended 31 December 2020 (2019: \$nil).

The notes on pages 14 to 32 form part of these financial statements.

Chrysaor (U.K.) Sigma Limited

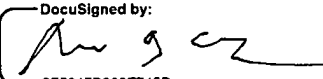
Balance Sheet

As at 31 December

	Note	2020 \$000	2019 \$000
Non-current assets			
Exploration and evaluation assets	8	46,905	45,871
Property, plant and equipment	9	867,916	865,834
Investments	10	274,119	274,119
Total non-current assets		1,188,940	1,185,824
Current assets			
Inventories	11	25,736	5,434
Debtors: amounts falling due within one year	12	65,196	44,065
Cash and cash equivalents	13	130	1
Total current assets		91,062	49,500
Total assets		1,280,002	1,235,324
Current liabilities			
Creditors: amounts falling due within one year	14	(658,598)	(611,412)
Total current liabilities		(658,598)	(611,412)
Non-current liabilities			
Deferred taxation	7	(118,009)	(116,716)
Provisions for liabilities	15	(63,770)	(43,299)
Total non-current liabilities		(181,779)	(160,015)
Total liabilities		(840,377)	(771,427)
Net assets		439,625	463,897
Capital and reserves			
Called up share capital	16	13	13
Share premium		96,781	96,781
Retained earnings		342,831	367,103
Total equity		439,625	463,897

The notes on pages 14 to 32 form part of these financial statements.

The financial statements on pages 11 to 32 were approved by the Board of Directors on 31 August 2021 and signed on its behalf by:

DocuSigned by:

 C75917B668F745D
 Andrew Osborne (Director)

31 August 2021

Company Registration No: 07832693

Chrysaor (U.K.) Sigma Limited

Statement of Changes in Equity

For the year ended 31 December

	<i>Called Up Share capital \$000</i>	<i>Share premium \$000</i>	<i>Retained earnings \$000</i>	<i>Total \$000</i>
At 1 January 2019	13	96,781	362,355	459,149
Profit for the financial year	-	-	55,364	55,364
Dividends paid (i)	-	-	(50,616)	(50,616)
At 31 December 2019	13	96,781	367,103	463,897
Loss for the financial year	-	-	(24,272)	(24,272)
At 31 December 2020	13	96,781	342,831	439,625

(i) Dividend of \$5,061.56 per share paid

Chrysaor (U.K.) Sigma 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 31 August 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 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 US Dollars (\$000) except when otherwise stated.

The Company has taken advantage of the disclosure exemption from preparing consolidated financial statements, under Section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual entity and not about its group.

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*.

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

Going Concern

The Directors have adopted the going concern basis of accounting for the preparation of the financial statements as the Company's ultimate parent company, 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.

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, being the North Sea.

Joint Arrangements

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

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

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

Foreign Currency Translation

The Company's functional currency and presentation currency is 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.

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 (U.K.) Sigma 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.

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 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.

Investments

Investments in subsidiaries are held at cost less accumulated impairment losses.

The Company assesses, at each reporting date, whether there is an indication that an investment may be impaired. Where an indicator of impairment exists, the Company estimates the recoverable amount of the underlying net assets of the relevant subsidiary, being the higher of the fair value less costs of disposal and value in use. If the recoverable amount is less than the carrying amount of the investment, the carrying amount is reduced to its recoverable amount. The difference between the carrying amount and the recoverable amount is recognised as an impairment loss in the Income Statement.

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

Impairment of Non-Current Assets

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

Financial Instruments

a. Financial Assets

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

Loans and Receivables

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

Cash and Cash Equivalents

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

Impairment of Financial Assets

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

Default events could include:

- payment default, i.e. the failure to pay principal or interest when it falls due for payment;
- prospective default, when payment is not yet due but it is clear that it will not be capable of being paid when it does fall due.

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.

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

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 or payables, 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. Fair Values

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

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

*Equity**Share Capital*

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

Inventories

Hydrocarbon inventories are stated at fair value less cost to sell with movements recognised in the Income Statement (see Over/underlift section on page 20). Other 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 (U.K.) Sigma Limited

Notes to the Financial statements**For the year ended 31 December 2020 (continued)*****Provisions for Liabilities***

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

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

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

Taxes***i. Current Tax***

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

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

ii. Deferred Tax

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

- Deferred income tax assets are recognised only to the extent that it is probable that the taxable profit will be available against which the deductible temporary difference, carried forward tax credits or tax losses can be utilised.
- Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised, or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying amount of the deferred income tax asset is reviewed at each balance sheet date.
- Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to 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.
- Deferred taxation is not provided where a permanent difference arises between the tax basis of an asset and the carrying value of that asset.

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

Revenue from Contracts with Customers

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

Over/Underlift

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

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 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.

Accounting Standards Issued But Not Yet Effective

The Company intends to adopt new and amended standards and interpretations, if applicable, when they become effective.

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.

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.

- *Exploration and Evaluation Expenditure*

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

Key Sources of Estimation Uncertainty

- *Recoverability of Oil and Gas Investments*

The Company assesses, at each reporting date, whether there is an indication that an investment in a subsidiary may be impaired. Where an indicator of impairment exists, an estimate of the recoverable amount of the underlying net assets of the relevant subsidiary is made and compared to the carrying amount of the investment. This assessment requires the use of estimates and assumptions. The key sources of estimation uncertainty are long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves, operating performance and tax exposures.

- *Recoverability of Oil and Gas Assets*

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

The Company's estimate of recoverable value of assets is sensitive to commodity prices, foreign exchange and discount rate. A reduction or increase in the long-term price assumptions of 10 percent are considered to be reasonably possible for the purposes of sensitivity analysis, the results of which can be found in note 9.

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

- *Decommissioning Costs*

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The Company assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, and the expected timing, extent and amount of expenditure. On the basis that all other assumptions in the calculation remain the same, a 10 percent increase in the cost estimates used to assess the final decommissioning obligation would result in an increase to the decommissioning provision of approximately \$6 million. This change would be principally offset by a change to the value of the associated asset.

3. Revenue

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

	2020 \$000	2019 \$000
Crude oil sales	51,454	79,388
Gas sales	653	1,333
	<u>52,107</u>	<u>80,721</u>

Revenues of \$52.1 million (2019: \$80.7 million) were from contracts with customers.

4. Operating Profit

This is stated after charging/(crediting):

	2020 \$000	2019 \$000
Depreciation of property, plant and equipment	29,411	26,705
Movement in over/under-lift balances and hydrocarbon inventories	(16,278)	(23,750)
Exploration and evaluation expenses	81	135
Auditors' remuneration - audit of the financial statements	-	-

For the year ended 31 December 2020, the auditors' remuneration of \$55,000 (2019: \$64,000) was borne by another group company and was not recharged to the Company.

Any fees paid to the Company's auditors for services other than the statutory audit of the Company are disclosed on a consolidated basis in the group financial statements of the Company's ultimate parent at 31 December 2020, CHL.

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

5. Staff Cost and Directors' Remuneration

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

(a) Directors' remuneration - For the period under prior ownership

For the 9 month period from 1 January 2019 to 30 September 2019, no remuneration was paid to the directors for their qualifying services in respect of the Company. As ConocoPhillips managed its operations at a divisional and geographical level it was not deemed practicable to apportion directors' remuneration between qualifying services for the Company and other group companies in which they held office. No directors received any compensation for loss of office.

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

	2020	2019
	\$000	\$000
Directors' remuneration	2,172	325
Payments made in lieu of pension contributions	213	43
Pension costs	11	5
	<u>2,396</u>	<u>373</u>

The directors' remuneration for the year ended 31 December 2020 and for the 3 month period from 1 October 2019 to 31 December 2019 refers to the total salaries, other emoluments and benefits paid to directors of the Company by fellow subsidiary, Chrysaor E&P Services Limited on behalf of the Group. 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	188
Payments made in lieu of pension contributions	129	25
Pension costs	6	3
	<u>1,394</u>	<u>216</u>

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

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

6. Finance Income and Finance Expenses

	2020	2019
	\$000	\$000
Finance income		
Bank interest	-	41
	<u>-</u>	<u>41</u>
Finance expenses		
Bank interest	-	(1,032)
Unwinding of discount on decommissioning provisions (note 15)	(1,366)	(1,353)
Other interest paid	(1,032)	(987)
Foreign exchange loss	(23,839)	(19,222)
	<u>(26,237)</u>	<u>(22,594)</u>
Net Finance expenses	<u>(26,237)</u>	<u>(22,553)</u>

7. Tax Expense

(a) Tax expense in the Income Statement

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

	2020	2019
	\$000	\$000
Current income tax:		
UK corporation tax	6,262	14,439
Amounts under/(over) provided in previous year	273	(1,074)
Group relief - prior year	-	(331)
Total current income tax	<u>6,535</u>	<u>13,034</u>
Deferred tax:		
Origination and reversal of temporary differences	1,139	7,578
Amounts under/(over) provided in previous year	-	32
Total deferred tax	<u>1,139</u>	<u>7,610</u>
Tax expense in the Income Statement	<u>7,674</u>	<u>20,644</u>

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

Tax Expense (continued)

(b) Reconciliation of the total tax expense

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

	2020 \$000	2019 \$000
(Loss)/profit before taxation	(16,598)	76,008
Tax calculated at UK standard rate of corporation tax for UK ring-fence companies of 40% (2019: 40%)	(6,639)	30,403
<i>Effects of:</i>		
Impact of losses relieved at different rates	(574)	419
Items not allowable for tax purposes / not taxable	6,355	3,729
Dividends received from subsidiary undertaking	-	(20,246)
Amounts under/(over) provided in previous year	273	(1,042)
Group/other reliefs	-	(331)
Non-ring fence losses not recognised	8,259	7,712
Total tax expense reported in the Income Statement	7,674	20,644

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

	Accelerated Capital Allowances \$000	Abandonment \$000	Investment Allowance \$000	Total \$000
<i>As at 1 January 2019</i>	(162,076)	16,944	34,926	(110,206)
Deferred tax (expense)/credit	(5,878)	376	(2,108)	(7,610)
Foreign exchange	-	-	1,100	1,100
At 31 December 2019	(167,954)	17,320	33,918	(116,716)
Deferred tax (expense)/credit	(7,575)	8,188	(1,752)	(1,139)
Foreign exchange	-	-	(154)	(154)
At 31 December 2020	(175,529)	25,508	32,012	(118,009)

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

Changes in tax rate

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 (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

8. Exploration and Evaluation Assets

	<i>Exploration and evaluation assets \$000</i>
At 1 January 2020	45,871
Additions	929
Revision of decommissioning asset	105
At 31 December 2020	<u>46,905</u>

An increase of \$0.1 million to decommissioning assets was recognised as a result of an update to decommissioning estimates (note 15).

9. Property, Plant and Equipment

	<i>Oil & gas development & production assets \$000</i>
Cost:	
At 1 January 2020	1,001,229
Additions	12,493
Revision of decommissioning asset	19,000
At 31 December 2020	<u>1,032,722</u>
Accumulated Depreciation:	
At 1 January 2020	135,395
Charge for the year	29,411
At 31 December 2020	<u>164,806</u>
Net book value:	
At 31 December 2020	<u>867,916</u>
At 31 December 2019	<u>865,834</u>

An increase of \$19.0 million to decommissioning assets was recognised as a result of an update to decommissioning estimates and the recognition of new obligations (note 15).

No impairment charge was recognised during the year (2019: \$nil). Assumptions involved in impairment measurement include estimates of commercial reserves and production volumes, future commodity prices, discount rates and the level and timing of expenditures, all of which are inherently uncertain.

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

Property, Plant and Equipment (continued)

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 crude price used was \$60 per barrel.

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 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).

A reduction in the long-term oil price of 10 percent is considered to be a reasonably possible change for the purpose of sensitivity analysis. A decrease to the long-term crude price specified above would not result in an impairment charge.

10. Investments

	<i>Equity</i> <i>\$000</i>
<i>Cost:</i>	
At 1 January 2020 and 31 December 2020	<u>383,550</u>
<i>Accumulated impairment losses:</i>	
At 1 January 2020 and 31 December 2020	<u>109,431</u>
<i>Net book value:</i>	
At 31 December 2020	<u><u>274,119</u></u>
At 31 December 2019	<u>274,119</u>

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

Investments (continued)

At 31 December 2020, the subsidiary undertakings of the Company which were all wholly owned were:

<i>Name of Company</i>	<i>Country of Incorporation</i>	<i>Proportion of voting rights and shares held</i>	<i>Main activity</i>
Chrysaor (U.K.) Theta Limited	UK	100%	Oil & Gas
Chrysaor (U.K.) Lambda Limited (i)	Ireland	100%	Dormant

(i) Held by Chrysaor (U.K.) Theta Limited

Chrysaor (U.K.) Theta Limited is incorporated and domiciled in the United Kingdom. The registered office address of Chrysaor (U.K.) Theta Limited is Brettenham House, Lancaster Place, London, United Kingdom, WC2E 7EN.

Chrysaor (U.K.) Lambda Limited is registered in the Republic of Ireland. The registered office address of Chrysaor (U.K.) Lambda Limited is Riverside One, Sir John Rogerson's Quay, Dublin 2, D02 X576.

Both of the subsidiary companies operate principally in the United Kingdom.

11. Inventories

	<i>2020</i>	<i>2019</i>
	<i>\$000</i>	<i>\$000</i>
Hydrocarbons	19,851	1,240
Consumables and subsea supplies	5,885	4,194
	<u>25,736</u>	<u>5,434</u>

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

12. Debtors: Amounts falling due within one year

	2020	2019
	\$000	\$000
Trade debtors	47	3,166
Under-lift position	490	2,790
Amounts owed by group undertakings	48,691	18,760
Amounts owed by parent companies in respect of taxation	15,315	14,800
Prepayments & accrued income	46	-
Other debtors	607	4,549
	<u>65,196</u>	<u>44,065</u>

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

13. Cash and Cash Equivalents

	2020	2019
	\$000	\$000
Cash at bank and in hand	130	1
	<u>130</u>	<u>1</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.

14. Creditors: Amounts falling due within one year

	2020	2019
	\$000	\$000
Trade creditors	4,604	7,890
Amounts owed to group undertakings	622,010	595,237
Accruals and deferred income	18,907	1,356
Corporation tax payable	13,077	6,929
	<u>658,598</u>	<u>611,412</u>

Included in the amounts owed to group undertakings at 31 December 2020 is a loan of \$612.7 million (2019: \$592.0 million) due to the Company's parent company, which is unsecured, interest free and repayable on demand. All other amounts due to group companies are unsecured, interest free and are repayable on demand.

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

15. Provisions for Liabilities

	<i>Decommissioning provision \$000</i>
At 1 January 2020	43,299
New Obligations - increase decommissioning asset	871
Change in estimate - increase decommissioning asset	18,234
Unwinding of discount (note 6)	1,366
At 31 December 2020	<u>63,770</u>
At 31 December 2020	
Non-current	63,770
	<u>63,770</u>
At 31 December 2019	
Non-current	43,299
	<u>43,299</u>

The Company provides for the estimated future decommissioning costs on its oil and gas assets at the balance sheet date. The payment dates of expected decommissioning costs are uncertain and are based on economic assumptions of the fields concerned. The Company currently expects to incur decommissioning costs over the next 30 - 40 years. Decommissioning provisions are discounted at a risk-free rate of 1.9% (2019: 2.8%) and the unwinding of the discount is presented within finance costs.

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

16. Called Up Share Capital

	<i>2020 No.</i>	<i>2019 No.</i>	<i>2020 \$000</i>	<i>2019 \$000</i>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	10,000	10,000	<u>13</u>	<u>13</u>

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

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

17. Capital commitments

As at 31 December 2020, the Company had placed contracts for capital expenditure amounting to \$7,759,000 (2019: \$10,899,000). Where the commitment relates to a joint arrangement, the amount represents the Company's net share of the commitment. Where the Company is not the operator of the joint arrangement then the amounts are based on the Company's net share of committed future work programmes.

18. 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.

On 1 June 2021, a 60% non-operated interest in the Group operated Callanish field was transferred to the Company from Chrysaor Production (U.K.) Limited for cash consideration of £1.

In April 2021, the Company entered into an agreement to transfer its 7.5% interest in the non-operated Clair field to Premier Oil UK Limited. The primary strategic rationale for this transfer is to enhance the financial resilience of Premier Oil UK Limited by transferring an asset which generates positive cash flow over an extended period of time. The transfer is 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 West of Shetland interests in Premier Oil UK Limited to create a cohesive West of Shetland business unit. This transaction completed on 1 August 2021.

On 16 August 2021, two new GBP denominated loans of £8.8 million and £439.2 million were advanced by the Company's parent company, Chrysaor Production (U.K.) Limited, for the purpose of repaying an existing GBP denominated loan of £448 million due by the Company to Chrysaor Production (U.K.) Limited. On 17 August 2021, the loan of £8.8 million was assigned by Chrysaor Production (U.K.) Limited to Chrysaor (U.K.) Delta Limited in consideration for £8.8 million, such amount being left outstanding as a loan owing by Chrysaor (U.K.) Delta Limited to Chrysaor Production (U.K.) Limited.

On 17 August 2021, Chrysaor Production (U.K.) Limited and Chrysaor (U.K.) Delta Limited subscribed for additional shares in the Company, pro-rata to their existing shareholdings, totalling £448 million (at par value and credited as fully paid in cash), in consideration for which the loans owing by the Company to Chrysaor Production (U.K.) Limited and Chrysaor (U.K.) Delta Limited were released.

19. Related Party Disclosure

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

Chrysaor (U.K.) Sigma Limited

Notes to the Financial statements

For the year ended 31 December 2020 (continued)

20. Ultimate Parent Undertaking and Controlling Party

The Company's immediate parent company is Chrysaor Production (U.K.) 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.