

Addax Petroleum UK Limited

Company No. 08135892

Financial Statements

For the Year Ended 31 December 2020

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ADDAX PETROLEUM UK LIMITED

Company Information
for the Year Ended 31 December 2020

DIRECTORS:

D K Moore
Q Zhao
J Gao

SECRETARY:

Vistra Company Secretaries Limited

REGISTERED OFFICE:

Suite 1, 3rd Floor 11-12
St. James's Square
London
SW1Y 4LB

REGISTERED NUMBER:

08135892 (England and Wales)

AUDITORS:

Shinewing Wilson Accountancy Limited
Chartered Certified Accountants
and Statutory Auditors
9 St Clare Street
London
EC3N 1LQ

Report of the Directors
for the Year Ended 31 December 2020

The Directors present their report together with the audited financial statements of Addax Petroleum UK Limited ("the Company" or "APUK") for the year ended 31 December 2020.

PRINCIPAL ACTIVITY

APUK is an investment holding company. The Company was incorporated on 10 July 2012 for the purpose of holding and managing its 49% shareholding in Repsol Sinopec Resources UK Limited ("RSRUK"), formerly Talisman Sinopec Energy (UK) Limited (the name was changed on 4 July 2016), based in Aberdeen, United Kingdom. RSRUK's assets are located in the United Kingdom.

The investment is in the form of a joint arrangement, in particular a joint venture. RSRUK is governed by a Shareholders' Agreement, which requires that unanimous consent be obtained from the shareholders for significant operating and financing decisions.

In addition, the Company assists its immediate parent on a legal case, recharges the relevant costs with a mark up, which is not considered as the Company's trading income.

REVIEW OF BUSINESS

Fluctuation in the prices of oil and gas and the impact on RSRUK's financial results have led to the directors and shareholders of RSRUK taking steps to improve its financial position. APUK, guaranteed by ultimate beneficial owners, the State-owned entities of the People's Republic of China, have committed to financially support RSRUK.

The Company incurred a loss of \$239million (2019: a profit of \$124million), after recording a share of losses of \$231million (2019: a share of profits of \$128million) and share of other comprehensive losses of \$8million (2019: \$3million) from RSRUK. Revenue for the management services provided to RSRUK, rendered amounts to \$1.06million (2019: \$1.37million). Other income for recharges to its immediate parent, rendered amounts to \$8.61million (2019: \$2.23million). As at 31 December 2020, the Company had 11 (2019: 10) employees, among them, 2 staff were assigned to RSRUK.

The Directors continue to closely monitor the development and management of APUK's investment in RSRUK. The Covid 19 pandemic, lower prices of oil and gas have created difficult trading conditions in the oil and gas sector. In order to deliver the basis of successful and sustainable business, RSRUK is committed to focus on delivering improved performance. With the successful completion of transformation programme, a lower cost base and lower capital expenditure allow RSRUK to take advantage in the future and maintain a better cash flow position. The business considers that Brexit and COVID-19 give no significant risk impact on its investment in RSRUK.

A Deposit Agreement was entered on 22 September 2017, to enable RSRUK to deposit excess cash proportionately with Addax Petroleum Holdings Limited ("APHL") and Repsol Tesoreria y Gestion Financiera, S.A. on a short-term basis until the funds are required to meet cash flow requirements. Based on the agreement, APHL has received a cash deposit of total \$617 million from RSRUK since 22 September 2017 up to 31 December 2020.

RISK ASSESSMENT

The Company has one sole investment, its shareholding in RSRUK. RSRUK's principal activity is the exploration, development and production of oil and gas. RSRUK is subject to a number of risks inherent to the nature of its business. These risks individually, or in the aggregate, can impact the net asset value of RSRUK and its subsidiaries, and therefore the assessment of the Company's investment values. These risks include, but are not limited to:

- Changes in Government and HSSE regulations applicable to RSRUK's assets;
- Ability of RSRUK to find, develop and acquire additional oil and gas reserves; and
- Volatility of commodity prices, costs of materials and services and demand for drilling and related equipment.

The Company is subject to certain capital management and financial risk management risks.

DIVIDENDS

The Directors do not recommend any distribution by way of a dividend for the year ended 31 December 2020.

DIRECTORS

D K Moore has held office during the whole of the period from 1 January 2020 to the date of this report.

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for the Year Ended 31 December 2020

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ADDAX PETROLEUM UK LIMITED

Report of the Directors
for the Year Ended 31 December 2020

DIRECTORS - continued

Other changes in directors holding office are as follows:

C.H Lo - resigned 31 December 2020
Q Zhao - appointed 31 December 2020

J Gao was appointed as a director after 31 December 2020 but prior to the date of this report.

X Hu ceased to be a director after 31 December 2020 but prior to the date of this report.

The Directors had no interests in the shares of the Company at any time during the year.

GOING CONCERN

The financial position of the Company and its business activities are described in the financial statements and notes 2 of this report. The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate financial resources to continue its operations for the foreseeable future with the financial support from its parents. Therefore, the Directors continue to adopt the going concern basis for the preparation of the financial statements.

SMALL COMPANIES REGIME

This report has been prepared taking advantage of the exemptions for small companies within Part 15 of the Companies Act 2006.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Shinewing Wilson Accounting Limited therefore will continue in office.

ON BEHALF OF THE BOARD:



.....
D K Moore - Director

Date: 29/09/2021

**Directors' Responsibilities Statement
for the Year Ended 31 December 2020**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 group and of the profit or loss of the group for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and consistently apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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. They 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ADDAX PETROLEUM UK LIMITED

Report of the Independent Auditors to the Members of
Addax Petroleum UK Limited

Opinion

We have audited the financial statements of Addax Petroleum UK Limited (the 'company') for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and Notes to the Cash Flow Statement, Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the 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 IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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.

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

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. For example, the current Covid 19 situation is not clear. It is difficult to evaluate all of the potential impacts on the Company's investment.

Emphasis of matter

We draw your attention to the accounting policies of

- "Investment in a joint venture" in the financial statements. There is a potential uncertainty as to the amounts recognised in this company's accounts relating to the joint venture, that could be material to this company due to the business scale of the joint venture company. The amounts included in these accounts relating to the joint venture have been derived from the audited accounts of the joint venture company. Although the directors have no reasons to doubt the reliability of the audited accounts, it is a fact that the correction of immaterial errors in the accounts of the joint venture company could have a material impact on the accounts of this company.
- "Trade and other payables" are initially recognised at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost. The balance due to its immediate parent APHL in fact is currently liability, non-interest bearing and payable on demand. However, the Directors have decided to present this amount as a long term loan due to AHPL, and not as a current liability, in order to reflect the substance of the financing and to show a true and fair view. APHL has confirmed that it will make no repayment demand with respect to the amount owing until the company has sufficient cash flow, which is unexpected within 12 months from the balance sheet date.

This is not a qualified opinion.



ADDAX PETROLEUM UK LIMITED

Report of the Independent Auditors to the Members of
Addax Petroleum UK Limited

Other information

The directors are responsible for the other information. The other information comprises the information in the Report of the Directors and the Directors' Responsibilities Statement, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- the directors were not entitled to prepare the revised financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page four, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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.

ADDAX PETROLEUM UK LIMITED

Report of the Independent Auditors to the Members of
Addax Petroleum UK Limited

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 a Report of the Auditors 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:

Discussions were held with, and enquiries made of, management and those charged with governance with a view to identifying those laws and regulations that could be expected to have a material impact on the financial statements. During the engagement team briefing, the outcomes of these discussions and enquiries were shared with the team, as well as consideration as to where and how fraud may occur in the entity.

The following laws and regulations were identified as being of significance to the entity:

- Those laws and regulations considered to have a direct effect on the financial statements include IFRSs financial reporting standards, Company Law, Employment Law, VAT and Tax legislation.
- It is considered that no other laws and regulations for which non-compliance may be fundamental to the operating aspects of the business.


Audit procedures undertaken in response to the potential risks relating to irregularities (which include fraud and non-compliance with laws and regulations) comprised of: inquiries of management and those charged with governance as to whether the entity complies with such laws and regulations; enquiries with the same concerning any actual or potential litigation or claims; inspection of relevant legal correspondence; review of board minutes; testing the appropriateness of entries in the nominal ledger, including journal entries; reviewing transactions around the end of the reporting period; and the performance of analytical procedures to identify unexpected movements in account balances which may be indicative of fraud.

No instances of material non-compliance were identified. However, the likelihood of detecting irregularities, including fraud, is limited by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error. As explained above, there is an unavoidable risk that material misstatements may not be detected, even though the audit has been planned and performed in accordance with ISAs.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.


Julie Zhuge Wilson (Senior Statutory Auditor)
for and on behalf of Shinewing Wilson Accountancy Limited
Chartered Certified Accountants
and Statutory Auditors
9 St Clare Street
London
EC3N 1LQ

Date: 29/09/2021

ADDAX PETROLEUM UK LIMITED

Statement of Comprehensive Income for the Year Ended 31 December 2020

| | Notes | 31.12.20 \$'000 | 31.12.19 \$'000 |
|---|-------|-------------------------|-----------------------|
| CONTINUING OPERATIONS | | | |
| Revenue | 4 | 1,056 | 1,373 |
| Other operating income | 5 | 8,605 | 2,238 |
| Administrative expenses | | <u>(9,625)</u> | <u>(4,625)</u> |
| OPERATING PROFIT/(LOSS) | | 36 | (1,014) |
| Finance income | 8 | <u>(231,263)</u> | <u>127,790</u> |
| (LOSS)/PROFIT BEFORE INCOME TAX 9 | | (231,227) | 126,776 |
| Income tax | 10 | <u>-</u> | <u>151</u> |
| (LOSS)/PROFIT FOR THE YEAR | | (231,227) | 126,927 |
| OTHER COMPREHENSIVE LOSS | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Share of OCI / (losses) in joint venture | | (7,616) | (2,758) |
| Income tax relating to item that may be reclassified subsequently to profit or loss | | <u>-</u> | <u>-</u> |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX | | <u>(7,616)</u> | <u>(2,758)</u> |
| TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR | | <u><u>(238,843)</u></u> | <u><u>124,169</u></u> |

The notes form part of these financial statements

ADDAX PETROLEUM UK LIMITED

Balance Sheet
31 December 2020

| | Notes | 31.12.20 \$'000 | 31.12.19 \$'000 |
|-------------------------------------|-------|--------------------|--------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | 4 | - |
| Investments | 13 | <u>164,873</u> | <u>403,752</u> |
| | | <u>164,877</u> | <u>403,752</u> |
| CURRENT ASSETS | | | |
| Trade and other receivables | 14 | 252 | 488 |
| Tax receivable | | 257 | 151 |
| Cash and cash equivalents | 15 | <u>177</u> | <u>294</u> |
| | | <u>686</u> | <u>933</u> |
| TOTAL ASSETS | | <u>165,563</u> | <u>404,685</u> |
| EQUITY | | | |
| SHAREHOLDERS' EQUITY | | | |
| Called up share capital | 16 | 1 | 1 |
| Other reserves | 17 | - | (13,443) |
| Retained earnings | 17 | <u>(3,322,052)</u> | <u>(3,069,766)</u> |
| TOTAL EQUITY | | <u>(3,322,051)</u> | <u>(3,083,208)</u> |
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Trade and other payables | 18 | <u>3,406,396</u> | <u>3,406,758</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 18 | <u>81,218</u> | <u>81,135</u> |
| TOTAL LIABILITIES | | <u>3,487,614</u> | <u>3,487,893</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>165,563</u> | <u>404,685</u> |

The financial statements were approved by the Board of Directors and authorised for issue on 29/09/2021 and were signed on its behalf by:



D K Moore - Director

The notes form part of these financial statements

ADDAX PETROLEUM UK LIMITED

Statement of Changes in Equity for the Year Ended 31 December 2020

| | Called up share capital \$'000 | Retained earnings \$'000 | Other reserves \$'000 | Total equity \$'000 |
|--|---|--------------------------------|-----------------------------|---------------------------|
| Balance at 1 January 2019 | 1 | (3,193,935) | (13,443) | (3,207,377) |
| Changes in equity | | | | |
| Profit for the year | - | 126,927 | - | 126,927 |
| Total comprehensive income | - | 126,927 | - | 126,927 |
| Other comprehensive income / (losses) | - | (2,758) | - | (2,758) |
| Total transactions with owners, recognised directly in equity | - | (2,758) | - | (2,758) |
| Balance at 31 December 2019 | 1 | (3,069,766) | (13,443) | (3,083,208) |
| Changes in equity | | | | |
| Deficit for the year | - | (231,227) | - | (231,227) |
| Other comprehensive income | - | (13,443) | 13,443 | - |
| Total comprehensive loss | - | (244,670) | 13,443 | (231,227) |
| Other comprehensive income / (losses) | - | (7,616) | - | (7,616) |
| Total transactions with owners, recognised directly in equity | - | (7,616) | - | (7,616) |
| Balance at 31 December 2020 | 1 | (3,322,052) | - | (3,322,051) |

The notes form part of these financial statements

ADDAX PETROLEUM UK LIMITED

Cash Flow Statement for the Year Ended 31 December 2020

| | Notes | 31.12.20 \$'000 | 31.12.19 \$'000 |
|---|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 1 | 108 | 331 |
| Tax paid | | <u>(220)</u> | <u>(480)</u> |
| Net cash from operating activities | | <u>(112)</u> | <u>(149)</u> |
| Cash flows from investing activities | | | |
| Purchase of tangible fixed assets | | <u>(5)</u> | <u>-</u> |
| Net cash from investing activities | | <u>(5)</u> | <u>-</u> |
| Decrease in cash and cash equivalents | | <u>(117)</u> | <u>(149)</u> |
| Cash and cash equivalents at beginning of year | 2 | 294 | 443 |
| Cash and cash equivalents at end of year | 2 | <u><u>177</u></u> | <u><u>294</u></u> |

The notes form part of these financial statements

ADDAX PETROLEUM UK LIMITED

Notes to the Cash Flow Statement
for the Year Ended 31 December 2020

1. RECONCILIATION OF (LOSS)/PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

| | 31.12.20 | 31.12.19 |
|---|-------------------|-------------------|
| | \$'000 | \$'000 |
| (Loss)/profit before income tax | (231,227) | 126,776 |
| Depreciation charges | 1 | - |
| Finance income | <u>231,263</u> | <u>(127,790)</u> |
| | 37 | (1,014) |
| Decrease in trade and other receivables | - | 621 |
| Increase in trade and other payables | <u>71</u> | <u>724</u> |
| Cash generated from operations | <u>108</u> | <u>331</u> |

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 31 December 2020

| | 31.12.20 | 1.1.20 |
|---------------------------|------------|------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | <u>177</u> | <u>294</u> |

Year ended 31 December 2019

| | 31.12.19 | 1.1.19 |
|---------------------------|------------|------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents | <u>294</u> | <u>443</u> |

The notes form part of these financial statements

1. GENERAL INFORMATION

a) Organisation

Addax Petroleum UK Limited ("the Company") is a private company limited by shares, incorporated in England & Wales under the Companies Act 2006. Its registered office address is Suite 1, 3rd floor, 11-12 St James's Square, London SW1Y 4LB, U.K.

The Company's direct parent and the lowest level at which a consolidation is prepared is Addax Petroleum Holdings Limited ("APHL"), a company incorporated in the British Virgin Islands under the BVI Business Companies Act 2004 (as amended). Its registered office address is Road Town, Tortola, British Virgin Islands.

The Company is an indirect wholly-owned subsidiary of Sinopec International Petroleum Exploration and Production Corporation ("SIPC"). The ultimate beneficial owners are China Petrochemical Corporation ("CPC" or "Sinopec group"), China Chengtong Holdings Group Ltd and China Reform Holdings Corporation Ltd, which are all State-owned entities of the People's Republic of China, incorporated in the People's Republic of China.

b) Principal activities

The Company's principal activity is holding and managing its 49% shareholding in Repsol Sinopec Resources (UK) Ltd ("RSRUK") based in Aberdeen, United Kingdom. The Company has contractually agreed to share control over RSRUK with another party from the date of acquisition, viz., Talisman Colombia Holdco Limited, making RSRUK a joint venture.

In addition, the Company assists its immediate parent on a legal case, recharges the costs with a mark up, which is not considered as the Company's trading income.

2. ACCOUNTING POLICIES**Basis of preparation**

The Company's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs"). Subsequent this accounting period, it will be UK-adopted rather than EU-adopted IFRSs.

Application of new and revised International Financial Reporting Standards:

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2020. Their adoption has no material effect on the financial statements:

- Amendment to IFRS 16 Leases Covid 19 Related Rent Concessions (issued on 28 May 2020)
- Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)
- Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform (issued on 26 September 2019)
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)

New and revised IFRSs in issue but not yet endorsed

- Amendments to IFRS 16 Leases: Covid-19- Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021) - adopted on 1 April 2021
- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (All issued 14 May 2020)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2 (issued on 27 August 2020)
- Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9 (issued on 25 June 2020)

The historical cost basis has been used in the preparation of the financial statements, and explained in the accounting policies below. The historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Directors have decided to present the Company's loan due to its immediate parent as a long-term loan instead of a current liability, in order to reflect the substance of the financing and to show a true and fair view.

All amounts in the financial statements and notes have been rounded off to the nearest thousand US Dollars, unless otherwise stated.

Going concern

The joint venture company ("RSRUK") will continue to undertake a significant programme of investment in capital projects and upgrades to existing assets in order to maximise future returns and cash flows of the business, subject to shareholders' unanimous consent. Under the Shareholders' Agreement, among other things, China Petrochemical Corporation unconditionally and irrevocably guarantees the full, due and punctual performance and observation by APUK of all the obligations of APUK to Talisman Colombia Holdco Limited and RSRUK.

The Company has received a confirmation of support from its immediate parent APHL. APHL will assist the Company in meeting its liabilities as and when they fall due, but only to the extent that money is not otherwise available to the Company to meet such liabilities. APHL will continue to cover any legal costs incurred in relation to the existing case that APUK is engaged in, by way of recharge and recognised as other operating income.

APHL itself has received a written confirmation, which provides that its indirect parent, Sinopec International Petroleum Exploration and Production Corporation ("SIPC") will continue to provide financial support and assist APHL in meeting its liabilities as and when they fall due.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

As a result, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

Investment in a joint venture

The Company's joint venture investment in RSRUK qualifies as a joint venture as the Company has contractually agreed to share control with another party.

APUK accounts for its interest in RSRUK using the equity method, is entitled to 49% of assets, liabilities, income and expenses. When the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent it has incurred legal or constructive obligations to make payments on behalf of the joint venture. In addition, the Company discloses the share of commitments and obligations in the notes to the financial statements. The directors obtained the information from the audited accounts of the joint venture company.

Although the directors have no reasons to doubt the reliability of those audited accounts, it is a fact that the correction of immaterial errors in those accounts could have a material impact on the accounts of this company. For this reason only, there is an uncertainty in the amounts recognised in this company's accounts relating to the joint venture, that could be material to this company.

Provisions and long-term liabilities

Provisions are recognised when APUK has a present obligation (legal or constructive) as a result of a past event, it is probable that APUK will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist if APUK has a contract under which the unavoidable costs of meeting its obligations under the contract exceed the economic benefits expected to be received from the contract.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote. The evaluation of the likelihood of the contingent events requires management judgment as to the probability of exposure to potential loss.

Revenue recognition

Revenue from management services rendered is recognized when the service has been performed, the amount of income can be measured reliably and it is probable that the economic benefits will flow to the Company, net of discounts, VAT and other sales related taxes.

Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and machinery - 25% on cost

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

2. ACCOUNTING POLICIES - continued

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company has classified financial assets and liabilities into the following classes: trade receivables and other current and non-current financial assets, equity investments, cash and cash equivalents, trade payables and other non-interest-bearing liabilities. The categorisation of the financial instrument for measurement purposes is done based on the objective for holding the asset and the asset's contractual cash flow characteristics determined at initial recognition.

Financial instruments are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. All other categories of financial instruments are subsequently measured at their amortised cost using the effective interest rate method.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortized cost less accumulated impairment losses for bad and doubtful debts. Trade and other receivables are derecognised if APUK's contractual rights to the cash flows from these financial assets expire or if APUK transfers these assets to another party without retaining control of substantially all risks and rewards of the assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank deposits and are subject to an insignificant risk of changes in value. Cash equivalents are stated at cost, which approximates fair value.

Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost. In order to reflect the substance of the financing and to show a true and fair view, the Directors can make decision to present a current liability with no interest charges as a long term loan, if this liability is an intercompany loan and the company receives a confirmation from the lender.

Impairment of financial assets

Trade accounts receivable, other receivables and investments in equity securities that do not have a quoted market price in an active market, other than investments in associates and jointly controlled entities, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset and is recognised as an expense in the income statement. Impairment losses for trade and other receivables are reversed through the income statement if in a subsequent period the amount of the impairment losses decreases. Impairment loss for equity securities is not reversed.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. APUK's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

2. ACCOUNTING POLICIES - continued

Foreign currencies

The US dollar is the presentation and functional currency as it best reflects the underlying transactions, events and conditions for the Company.

For the purposes of presenting financial statements, the assets and liabilities are translated into US dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at exchange rates prevailing on the last day of the month prior to the date of the transaction unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in the statement of income.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated to US dollars at the rates prevailing at the end of each reporting period. Non-monetary items in a foreign currency that are measured in terms of historical cost are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. The estimates and associated assumptions are based upon historical experience and other factors that are not readily apparent from other sources but management considered to be relevant. Actual results may differ from these estimates and the differences could be significant.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Investment in a joint venture

The amounts from investment in a joint venture and provision of obligations shared from the joint venture in this company's accounts, involving estimation, could be uncertainty and material to this company due to the business scale of the joint venture. The amounts included in these accounts relating to the joint venture have been derived from the audited accounts of the joint venture company. Although the directors have no reasons to doubt the reliability of the audited accounts, it is a fact that the correction of immaterial errors in the accounts of the joint venture company could have a material impact on the accounts of this company.

Loan due to immediate parent APHL

The balance due to the company's immediate parent APHL in fact is currently liability, non-interest bearing and payable on demand. However, the Directors have presented this amount as a long term loan due to APHL, in order to reflect the substance of the financing and to show a true and fair view, subject to the company receives confirmation from APHL that there's no repayment demand with respect to the amount owing until the company has sufficient cash flow.

4. REVENUE

Revenue from contracts with customers

Revenue represents management services rendered to the joint venture company.

5. OTHER OPERATING INCOME

| | 31.12.20 | 31.12.19 |
|--------------|--------------|--------------|
| | \$'000 | \$'000 |
| Other income | <u>8,605</u> | <u>2,238</u> |

ADDAX PETROLEUM UK LIMITED

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

6. EMPLOYEES AND DIRECTORS

| | 31.12.20 | 31.12.19 |
|-----------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Wages and salaries | 2,679 | 2,746 |
| Social security costs | 612 | 357 |
| Other pension costs | 27 | 54 |
| | <u>3,318</u> | <u>3,157</u> |

The average number of employees during the year was as follows:

| | 31.12.20 | 31.12.19 |
|----------------|-----------|-----------|
| Directors | 3 | 3 |
| Administration | 8 | 7 |
| | <u>11</u> | <u>10</u> |

| | 31.12.20 | 31.12.19 |
|--|--------------|---------------|
| | \$ | \$ |
| Directors' remuneration | 401,706 | 396,000 |
| Directors' pension contributions to money purchase schemes | <u>3,462</u> | <u>12,907</u> |

Information regarding the highest paid director is as follows:

| | 31.12.20 | 31.12.19 |
|---|--------------|---------------|
| | \$ | \$ |
| Emoluments etc | 401,706 | 396,000 |
| Pension contributions to money purchase schemes | <u>3,462</u> | <u>12,907</u> |

7. EMPLOYEES BENEFITS

A pension contribution of \$27K (2019: \$54K) has been included in the general and administrative costs.

8. NET FINANCE COSTS

| | 31.12.20 | 31.12.19 |
|---------------------------|------------------|----------------|
| | \$'000 | \$'000 |
| Finance income: | | |
| Interest in joint venture | <u>(231,263)</u> | <u>127,790</u> |

9. (LOSS)/PROFIT BEFORE INCOME TAX

The loss before income tax (2019 - profit before income tax) is stated after charging/(crediting):

| | 31.12.20 | 31.12.19 |
|---|-------------|-----------|
| | \$'000 | \$'000 |
| Depreciation - owned assets | 1 | - |
| Auditors' remuneration | 45 | 45 |
| Auditors' remuneration for non audit work | 5 | 5 |
| Foreign exchange differences | <u>(34)</u> | <u>57</u> |

ADDAX PETROLEUM UK LIMITED

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

10. INCOME TAX

Analysis of tax income

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|---|--------------------|--------------------|
| Current tax: | | |
| Tax | - | (151) |
| Total tax income in statement of comprehensive income | - | (151) |

Factors affecting the tax expense

The tax assessed for the year is higher (2019 - lower) than the standard rate of corporation tax in the UK. The difference is explained below:

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|--|--------------------|--------------------|
| (Loss)/profit before income tax | (231,227) | 126,776 |
| (Loss)/profit multiplied by the standard rate of corporation tax in the UK of 19% (2019 - 19%) | (43,933) | 24,087 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 1 | 3 |
| Share of (profit) / loss in joint venture that are not allowable | 43,940 | (24,280) |
| Losses not recognised | (8) | 39 |
| Tax income | - | (151) |

There are no potential deferred tax assets with respect to the tax losses and timing differences, since all tax losses were fully used in 2017 and fixed assets were fully disposed in 2017.

Post 2018, no deferred tax assets were recognised.

11. OTHER COMPREHENSIVE LOSS

Investment gains in joint venture

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|-------------------------------------|--------------------|--------------------|
| Share of profit of joint venture | (231,263) | 127,790 |
| Share of other comprehensive income | (7,616) | (2,758) |
| | (238,879) | 125,032 |

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

12. PROPERTY, PLANT AND EQUIPMENT

| | Plant and machinery \$'000 |
|-----------------------|----------------------------------|
| COST | |
| Additions | <u>5</u> |
| At 31 December 2020 | <u>5</u> |
| DEPRECIATION | |
| Charge for year | <u>1</u> |
| At 31 December 2020 | <u>1</u> |
| NET BOOK VALUE | |
| At 31 December 2020 | <u><u>4</u></u> |

ADDAX PETROLEUM UK LIMITED

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

13. INVESTMENTS

On 23 July 2012, APUK along with SIPC entered into an agreement (the "Share Purchase Agreement") with Talisman Energy Inc., and Talisman Colombia Holdco Limited (collectively "Talisman") to purchase a 49% non-operated equity interest in Talisman Energy UK Limited. The transaction was completed on 17 December 2012 and Talisman Energy UK Limited subsequently changed its name to Talisman Sinopec Energy UK Limited. In July 2016 the name was changed to Repsol Sinopec Resources UK Limited ("RSRUK") following the acquisition of Talisman by Repsol SA in May 2015.

RSRUK, incorporated in England and Wales, is engaged in the exploration for, and development and production of crude oil and natural gas in the UK North Sea. RSRUK is governed by a Shareholders' Agreement dated 17 December 2012, which requires unanimous consent to be obtained from the shareholders for all significant operating and financing decisions.

In 2016, the Company's ultimate beneficial owners became 3 State owned entities of the People's Republic of China, and these have committed to financially support APUK, then RSRUK. APUK has obligation to continue investing in RSRUK to fund its operating and capital expenditures until 31 December 2018, under a Subscription Agreement. No cash has been invested in RSRUK during the year. RSRUK is expected to maintain positive cash flows over the next five years. Therefore, a new Subscription Agreement is not expected to be entered into.

The following table summarises the financial position of the joint venture. Based on the Shareholders' Agreement, the Company has calculated and provided its obligation to the joint venture at year end.

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|---|--------------------|--------------------|
| Total non-current assets | 2,712,631 | 3,269,420 |
| Total current assets | 1,713,524 | 1,714,815 |
| Total current liabilities | (293,221) | (435,336) |
| Total non-current liabilities | (3,796,457) | (3,724,914) |
| Net assets/(liabilities) | 336,477 | 823,985 |
| Investment in / (provision to fund) joint venture (49%) | 164,873 | 403,752 |
| Movement of the obligation in the year | (238,879) | 125,032 |

The following table summarises movement of the Company's obligation to fund joint venture:

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|---|--------------------|--------------------|
| At 1 January 2019 | 403,752 | 278,720 |
| Cash injection | - | - |
| Investment gains in joint venture (note 11) | (238,879) | 125,032 |
| At 31 December 2020 | 164,873 | 403,752 |

ADDAX PETROLEUM UK LIMITED

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

The following information presented are the amounts included in the financial statements of the joint venture adjusted for fair value adjustments made at the time of acquisition, as appropriate. The fair value adjustments relate to property, plant and equipment, provisions, assets impairments and goodwill.

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|------------------------------------|--------------------|--------------------|
| Cash and cash equivalents | 1,346,781 | 1,239,103 |
| Revenue | 799,941 | 1,309,921 |
| Depreciation | 427,301 | 784,004 |
| Finance income | 26,078 | 40,312 |
| Interest expense | 15 | 40 |
| Tax expenses/(credit) for the year | (273,433) | (27,904) |
| Other comprehensive income/(loss) | (15,543) | (5,628) |
| Profit/(loss) after tax credit | (471,965) | 260,796 |

14. TRADE AND OTHER RECEIVABLES

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|------------------------------------|--------------------|--------------------|
| Current: | | |
| Amounts owed by group undertakings | 239 | 475 |
| Prepayments | <u>13</u> | <u>13</u> |
| | <u>252</u> | <u>488</u> |

The carrying values of the other receivables are equal to their fair value at the end of the reporting period.

Amount due from joint venture interest represents the unpaid invoices, recharged to RSRUK.

15. CASH AND CASH EQUIVALENTS

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|----------------|--------------------|--------------------|
| Bank account 1 | 137 | 283 |
| Bank account 2 | <u>40</u> | <u>11</u> |
| | <u>177</u> | <u>294</u> |

16. CALLED UP SHARE CAPITAL

The total number of issued and fully paid ordinary shares at 31 December 2020 is 1,000 (2019: 1,000) shares at \$1 each at nominal value.

17. RESERVES

| | Retained earnings \$'000 | Other reserves \$'000 | Totals \$'000 |
|--|--------------------------------|-----------------------------|--------------------|
| At 1 January 2020 | (3,069,766) | (13,443) | (3,083,209) |
| Deficit for the year | (231,227) | | (231,227) |
| Transfer from other reserve | (13,443) | 13,443 | - |
| Other comprehensive income / (losses) | <u>(7,616)</u> | <u>-</u> | <u>(7,616)</u> |
| At 31 December 2020 | <u>(3,322,052)</u> | <u>-</u> | <u>(3,322,052)</u> |

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

18. TRADE AND OTHER PAYABLES

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|------------------------------------|--------------------|--------------------|
| Current: | | |
| Trade creditors | 131 | - |
| Amounts owed to group undertakings | 80,257 | 80,245 |
| Social security and other taxes | 86 | 85 |
| Other creditors | - | 9 |
| Accrued expenses | 736 | 646 |
| VAT | 8 | 150 |
| | <u>81,218</u> | <u>81,135</u> |
| Non-current: | | |
| Amounts owed to group undertakings | <u>3,406,396</u> | <u>3,406,758</u> |
| Aggregate amounts | <u>3,487,614</u> | <u>3,487,893</u> |

Included in trade and other payables, amounts due to group undertakings are non-interest bearing and payable on demand. The carrying values of the trade and other payables are equal to their fair value at the end of the reporting period.

APHL has confirmed that it will make no repayment demand with respect to the amount owing to it by APUK, amounting to \$3,406 million (2019: \$3,407 million), for minimum twelve months from the date of this report.

The amount owing to APHL is non-interest bearing with no set repayment date.

Although the Company does not have an unconditional right to defer settlement of this balance for more than 12 months from the balance sheet date, the Directors have decided to present this amount as a long term loan due to APHL, and not as a current liability, in order to reflect the substance of the financing and to show a true and fair view.

19. CONTINGENCIES

RSRUK is required to provide letters of credit as security in relation to certain decommissioning obligations in the United Kingdom pursuant to contractual arrangements under Decommissioning Security Agreements (DSAs). At 31 December 2020, RSRUK has provided letters of credit in the amount of £1,107million (2019: £1,075million) as security for the costs of future dismantlement, site restoration and abandonment costs for certain North Sea fields.

In 2020, 49% of the letters of credit issued on behalf of RSRUK were secured by back to back letters of credit from facilities entered into either by APHL or SIPC. This arrangement allows APUK to meet its obligations under the Shareholders' Agreement.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

20. COMMITMENTS

Deferred Compensation Plan (DCP)

Awards under the DCP to the Company's employees shall be purely discretionary, do not form part of the employees' contractual remuneration and are not pensionable. The DCP allocates an Award which vests two years after the Award is made. The grant date is 1st August.

As at 31 December 2020, the estimated accrued award is as follows:

| | Vesting date | Estimated award to vest \$'000 | Estimated non- vested award \$'000 |
|----------------------------|--------------|--------------------------------------|---|
| Deferred Compensation Plan | August 2021 | <u>265</u> | <u>265</u> |

ADDAX PETROLEUM UK LIMITED

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

21. RELATED PARTY TRANSACTIONS

The transactions took place in between APUK and its related parties:

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|---|--------------------|--------------------|
| Management service fees: | | |
| Addax Petroleum Holdings Limited - immediate parent | 8,605 | 2,238 |
| Repsol Sinopec Resources (UK) Limited - joint venture | 1,056 | 1,373 |
| Charges: | | |
| Addax Petroleum Limited - fellow subsidiary | - | (25) |
| Repsol Sinopec Resources (UK) Limited | - | - |

All transactions with these related parties are recorded at amounts agreed to by parties.

Amounts due from/(to) related parties are included in accounts receivable and accounts payable in the statement of financial positions are as follows:

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|---|--------------------|--------------------|
| Addax Petroleum Holdings Ltd (Note 18) | (3,406,396) | (3,406,758) |
| Addax Petroleum Ltd (Note 18) | (80,257) | (80,245) |
| Repsol Sinopec Resources (UK) Limited (Note 14) | 239 | 475 |

The amount due to Addax Petroleum Holdings Limited includes the following items:

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|---|--------------------|--------------------|
| Loan to acquire shares in RSRUK in December 2012 | (1,075,464) | (1,075,464) |
| Interest on loan to acquire above shares in RSRUK | (79,148) | (79,148) |
| Additional issued shares in RSRUK | (1,138,383) | (1,138,383) |
| Cash injection to fund issue of shares in RSRUK | (1,220,100) | (1,220,100) |
| Cash from RSRUK - BG settlement in 2017 | 18,599 | 18,599 |
| Transfer pricing from APUK to APHL - recharges | 151,590 | 142,985 |
| Funding to APUK and covering recharges | (63,490) | (55,247) |
| | <u>(3,406,396)</u> | <u>(3,406,758)</u> |

A Deposit Agreement was entered on 22 September 2017, to enable RSRUK to deposit excess cash proportionately with Addax Petroleum Holdings Limited and Repsol Tesoreria y Gestion Financiera, S.A. on a short-term basis until the funds are required to meet cash flow requirements. Based on the agreement, APHL has received a cash deposit of total \$617.4million from RSRUK since 22 September 2017 up to 31 December 2020.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

22. FINANCIAL INSTRUMENTS

Capital Management

APUK manages its capital to ensure it will be able to continue as a going concern.

The capital structure of APUK consists of net debt (shareholder advance offset by cash and cash equivalents) and equity. APUK is not subject to externally imposed capital requirements.

APUK may issue new debt or equity or similar instruments, reduce debt levels, or make adjustments to its capital expenditure program.

Categories of financial instruments

| | 31.12.20 \$'000 | 31.12.19 \$'000 |
|--|--------------------|--------------------|
| Financial Assets | | |
| Held for trading: | | |
| Cash and cash equivalent | 177 | 294 |
| Loans and receivables: | | |
| Trade and receivables and other current assets | 275 | 488 |
| | <u>452</u> | <u>782</u> |
| Financial Liabilities | | |
| Other liabilities: | | |
| Trade and other payables | 81,218 | 81,135 |
| Long term borrowings | 3,406,396 | 3,406,758 |
| | <u>3,487,614</u> | <u>3,487,893</u> |

The carrying value of the financial assets and liabilities approximates their fair value.

Financial risk management objectives

The Directors manage the financial risks relating to the Company in conjunction with those of the Group of which it is part of and steps are taken where necessary to ensure these risks are appropriately managed. The Company does not enter or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The Company is primarily exposed to financial risk of change in foreign currency exchange rates and in the interest rates.

Foreign exchange risk

APUK is exposed to foreign exchange risk because its joint venture undertakes transactions in foreign currencies, primarily with respect to the British pound ("GBP"). There are no hedging policies in place or hedged transactions, as the majority of financial flows are denominated in USD.

Interest rate risk

APUK is no longer exposed to interest rate risk on its outstanding borrowings as the amounts due to group undertaking are non-interest bearing.

APUK manages this risk through regular review of market conditions and exchange rates, for which, if considered necessary, recommendations for changes to existing financing or new arrangements are presented to the board of directors or management committee for approval.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2020

Credit risk

Credit risk is the risk of economic loss arising when counterparty fails to meet its obligations as they become due. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness and the respective concentration risk.

The credit risk on receivables is limited because the counterparties are related parties which are closely monitored by the management.

Liquidity risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full.

The Company is able to obtain financing from APHL and ultimate parents as required. These funds are primarily used to finance working capital and administrative expenses. APUK manages its liquidity risk by regularly monitoring its cash flows, holding adequate amounts of cash.

Liquidity and interest risk tables (\$'000)

| At 31 December 2020 | Interest rate % | Less than 1 year | Year 1 - 5 | Over 5 years | Total |
|-------------------------------|----------------------------|-----------------------------|-------------------|-------------------------|--------------|
| Financial Assets: | | | | | |
| Cash and cash equivalents | - | 177 | - | - | 177 |
| Loan and receivables | - | 275 | - | - | 275 |
| Financial Liabilities: | | | | | |
| Trade and other payables | - | 81,218 | - | - | 81,218 |
| Long term borrowings | - | - | 3,406,396 | - | 3,406,396 |
| At 31 December 2019 | Interest rate % | Less than 1 year | Year 1 - 5 | Over 5 years | Total |
| Financial Assets: | | | | | |
| Cash and cash equivalents | - | 294 | - | - | 294 |
| Loan and receivables | - | 488 | - | - | 488 |
| Financial Liabilities: | | | | | |
| Trade and other payables | - | 81,135 | - | - | 81,135 |
| Long term borrowings | - | - | 3,406,758 | - | 3,406,758 |