CHRYSAOR

Report and Financial Statements

31 DECEMBER 2017

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Company No. FC027988;
UK Establishment No. BR009700

Corporate information

Directors

L Cook	(Non-Executive Chairman)
P Kirk	(Chief Executive Officer)
A Osborne	(Chief Financial Officer)
M Brown	(Non-Executive Director)
R Edwards	(Non-Executive Director)
S Farris	(Non-Executive Director)
J Hogan	(Non-Executive Director)
A Jamieson	(Non-Executive Director)
R B Thomas	(Non-Executive Director)

Secretary
H Landes

Auditors
Ernst & Young LLP
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Group Strategic Report

2017 Review

It has been an incredibly exciting year for Chrysaor. Our transformational acquisition of a package of North Sea assets, which was announced in late January 2017 and completed on 1 November 2017, established Chrysaor as the UK's leading independent E&P company.

The huge amount of work done by our people around the business and by those joining us, coupled with a highly professional transition process, ensured the safe and timely transfer of the assets. I would like to thank everyone involved, including our staff, partners, financial backers and supply chain.

As a result of their hard work, Chrysaor has a portfolio that in January 2018 has produced over 135,000 barrels of oil equivalent per day ('boepd') at an operating cost of less than $15/ barrel.

Chrysaor is operator and duty holder of three platforms: Armada, North Everest and Lomond which together represent just under a third of our overall production. Those three key operated hub facilities support production from a number of fields and have a number of material drilling targets that the Group is pursuing. In addition to our operated fields we have significant interests in six non-operated assets, including Buzzard, Schiehallion, the J-Area, the Beryl area and Elgin-Franklin with six different operators and a multitude of separate fields. Our total production is split approximately 60% oil and 40% gas. The diversification of the portfolio provides both a balance that we like and resilience in the face of potentially volatile commodity markets and production outages.

The transaction has also seen Chrysaor dramatically expand its workforce from some 20 in December 2016 to approximately 400 employees and contractors now, with around 200 currently based in our new operations centre in Aberdeen, 150 offshore and a further 50 based in our corporate headquarters in London.

The North Sea and UKCS has risked being written off several times during its 50 year history. This was most recently in 2014 as the price of crude dropped from highs of over $100 to less than $40, and the basin was perceived to have only a limited future, struggling to be globally competitive. As had been the case before, the industry and the UK reacted by transforming efficiency and unit costs and securing the near-term future for the UKCS. In 2018, having seen several years of UKCS production increases, we still see plenty of opportunity.

At Chrysaor, significant positive cash flow and a high-quality package of assets, infrastructure and people, provide us with a strong growth platform as we look to realise our vision to create a market leading North European E&P company that we and our stakeholders can be proud of.

Our focus, underpinned by an entrepreneurial culture, is on safely delivering profitable full cycle growth across the North Sea, both in the UK and Norway. Those opportunities for safe and sustainable growth will come from brownfield developments, near field infrastructure-led exploration, third-party businesses accessing our infrastructure and further acquisitions.

Already in 2018 we have begun to demonstrate our intent by agreeing to acquire 100% of the equity in the Armada hub fields. This paves the way for a drilling programme to materially extend the life of the Armada hub. Furthermore, our farm-in to the Grevling discovery and potential development project in the Norwegian North Sea is a first step in our Norwegian story. Both transactions are subject to customary partner and regulatory approvals but are expected to close in 2018.

We will work hard to maintain production at or above current levels and to materially increase our reserves and resource base. Our year end 2P reserves, supported by our reserves auditor, are just over 350 mmboe. This is the same reserve figure for the acquisition as at 1 July 2016 but with 18 months of production since that date. This eloquently demonstrates the growth potential within the portfolio.

That said, and despite all of the excitement, the safety of our people underpins all our activities and remains our primary objective.

Market review

The oil market in 2017 was characterised by different market dynamics between the first and second halves of the year. The first half of the year saw the Brent spot price largely in the $45-55 per barrel (bbl) range. The second half of the year, and particularly the last quarter, was characterised by rising prices that eventually saw Brent surpass $70/bbl in early 2018 for the first time in three years.

The USD/GBP foreign exchange rate averaged 1.30 during 2017, reached an annual high of 1.35 in December and then surpassed 1.40 in early 2018. Although a weaker dollar tends to have a positive impact on oil prices, UK producers with a sterling cost base will find their costs increase in dollar terms.

The average day-ahead UK gas price for 2017 was 45p/therm, an increase of around a third from the 35p/therm average UK gas price of 2016.

For planning purposes, the Chrysaor management team's commodity price deck is underpinned by the current forward curve. Furthermore, given the mix of oil and gas revenue and therefore US dollar and pound sterling revenue, our business is well balanced from a foreign exchange perspective with sterling revenue covering all of the group sterling operating costs and US dollar revenue more than covering US dollar financing and capital expenditure.

Business model

Chrysaor is a full cycle E&P company with a business model that aims to create and safely deliver value, growth and returns for its investors through a balanced approach to production and development, combined with significant gearing to exploration and appraisal activity, as well as acquisitions.

Chrysaor's production activities focus on delivering value by identifying opportunities to maximise economic recovery, by investing to extend field life and by working actively to attract and achieve third-party business. Development activities are focused on incremental near and in-field drilling to increase and extend the production plateau and reduce any decline.

Chrysaor's exploration and appraisal activities are focused on adding resources for future development in regions, hubs and geologies where the Group has competitive advantage and expertise.

In pursuing incremental development, exploration and appraisal activities, Chrysaor employs innovative commercial deals and financing structures to align the interests of stakeholders and best achieve strategic objectives. Chrysaor has, subject to completion, entered into a service partnership agreement with Baker Hughes General Electric (BHGE). The contract covers the drilling, completion and the tie-in of development wells. Chrysaor and BHGE will share in both the risks and rewards associated with operations and reservoir outcome.

Chrysaor delivers its business model by employing a robust approach to risk management to help deliver its strategic goals. Chrysaor has significant in-house operational expertise managing the operated assets and works actively with its non-operated asset partners to continuously evaluate opportunities and employ innovation to deliver value.

Chrysaor has a strong focus on capital discipline, applying rigorous, consistent evaluation across organic and acquisition opportunities. All opportunities are screened to achieve attractive risk-adjusted returns at conservative commodity prices.

Chrysaor's primary objective is delivery of its business model and the safe operation of all assets.

Group Strategic Report continued

Strategy and acquisition of package of North Sea assets

Strategy

Chrysaor's strategy is to generate superior shareholder returns by exploring, appraising, developing and commercialising oil and gas resources, through both organic initiatives and acquisitions. The production portfolio delivers robust operating cash flow, which is complemented by a long-term debt and equity funding position that provides Chrysaor with a healthy investment basis. This, combined with a prudent capital allocation programme and innovative commercial deals, helps create a high-quality and diverse portfolio.

Our vision is to create a market leading North European exploration and production (E&P) company that we, our people and our stakeholders, can be proud of. Working with competent, innovative and dedicated colleagues, who adhere to our core values and business principles, we believe we will safely deliver our goals and vision.

Acquisition of package of North Sea assets and transition project
Chrysaor submitted its initial bid for a package of operated and non-operated assets from Shell (the 'vendor') in the UK North Sea in October 2016 and became the preferred bidder in November 2016.

The bid was submitted on the basis that Chrysaor would become operator and duty holder of the three operated producing assets, Armada, Everest and Lomond hubs. Chrysaor also made an early strategic decision to overturn established plans to cease production on the Armada hub in favour of a new drilling campaign to extend the economic life of the fields and backfill existing spare pipeline capacity.

The Sale and Purchase Agreements (SPAs) were signed in January 2017, with a completion target date set for 1 November 2017. At the same time, various suppliers were appointed to provide functional and systems integration support for the transition.

The timescale to achieve the transition represented a very ambitious target for Chrysaor, given that the Group had to build an organisation, design business processes and deploy new systems, while managing the required phased offshore handover period and the assurance programmes required by regulators, all in a practical and orderly way by the end of September 2017 to meet the completion deadline a month later.

The transition project was split into various generic phases and managed on a functional basis. Chrysaor was supported by the vendor, with the provision of people who were dedicated to the transition and brought expertise on systems such as the prevailing business management system and maintenance and procurement system, which are critical to managing the operated asset platforms.

Completion occurred on 1 November 2017. The transition was achieved on time and under budget, without harm to any individual or damage to the environment:

- three operated assets were safely transferred from the vendor to Chrysaor with the corresponding new safety cases all in Chrysaor's name;
- six non-operated assets were transferred;
- the asset transfers were fully approved by regulators;
- around 250 staff transferred from the vendor to Chrysaor in accordance with the Transfer of Undertakings Protection of Employment (TUPE) regulations;
- core business systems were deployed, covering business management, requisition to pay, asset integrity and maintenance, as well as a hydrocarbon management system and all offshore operational networks;
- a complete portfolio of new operational contracts was put in place; and
- complete fit-out of Chrysaor's new Aberdeen office.

Financing
To fund the acquisition of the assets, Chrysaor received finance from its primary equity sponsor, Harbour Energy (an investment vehicle of EIG Global Energy Partners) together with senior and junior debt. The senior debt was a Reserves Based Loan facility provided by a syndicate of 17 global financial institutions and the junior debt facility was provided by the vendor. Chrysaor continues to enjoy very strong support from the international banking community which is testament both to the quality and diversity of the current portfolio and strength of the management team. Chrysaor actively engages and works with all its financing partners to realise its strategic objectives.

Organisation and Culture

Culture and vision
Chrysaor is proud of the way we do business and the way we treat our business partners and stakeholders. In 2017, we refreshed our vision, core values and business principles in light of the acquisition and assumption of operatorship. Our core values and business principles reinforce our positive and supportive company culture.

Chrysaor's core values represent what we stand for, what is important to us, and what we will not compromise on.

We have summarised our core values in four words:

- Integrity
- Safety
- Passion
- Innovation

Our core values are supported by a set of business principles which define our expectations in all key areas of our business activities. The business principles are:

- Risk Management and Environment
- Integrity and Ethics
- Economics
- Excellence
- Communication

Our vision is to create a market leading North European E&P company that we and our stakeholders are proud of.

We believe that through working with competent, innovative and dedicated colleagues, who adhere to our core values and business principles, we will safely deliver our goals and vision.

Group Strategic Report continued

The Chrysaor organisation
Chrysaor's business footprint changed considerably in 2017 and the organisation saw substantial growth in employee numbers. Currently there are approximately 400 Chrysaor employees and contractors, of which approximately 250 employees transferred from the vendor at the time of completion and we recruited around 130 external people during the year. Responsibilities are spread across the locations as follows:

Aberdeen: HSEQ, Asset Management, Projects/Development, Technical Assurance/Innovations, Supply Chain, Commercial, Human Resources, Wells & Subsea, Operational Finance.

London: Group Executive team, Group Finance, Treasury, Insurance, Tax, Legal, Marketing/Trading, Exploration, Business Development, Communications and Information Technology.

Offshore: HSE, Asset Integrity, Production Operations & Maintenance, Wells & Subsea.

The Chrysaor core values

Integrity
We believe that doing the right thing in a professional but caring, respectful and honest way promotes and delivers a transparent organisation that stakeholders can trust. We have nothing to hide and believe that the high levels of peer and family accountability we hold ourselves to will stand any scrutiny. We expect our people to be trustworthy, good to their word and reliable in their dealings with each other and our stakeholders, as well as thoughtful, respectful of the opinions of others, and the customs, cultural diversity and regulatory requirements of the locations in which we do business.

Safety
Safety is fundamental to everything we do. It is not a manual or checklist but is inherent in every thought and decision. Everyone should be able to go to bed securely after a safe day's work. Accountability for safety rests with all of us.

Passion
We care passionately about people, our assets and our responsibilities to our stakeholders. We encourage our people to be optimistic and proactive, and work hard to achieve their goals. We believe that having the courage to work on our own initiative or stand up for what we know is right is fundamental to achieving success for the Group and ourselves. We will not compromise our technical or engineering integrity but firmly believe that a "can do" attitude will help us be more successful.

Innovation
Chrysaor encourages a more creative approach to business. We firmly believe in the importance of facts over opinions and that the best solution is not always the most obvious. Taking the lead to achieve our goals is important but we recognise that success is only possible when people work together in a focused, collegiate and cooperative environment, which carefully recognises and manages risk to achieve the optimal result for the business and ourselves.

The Chrysaor business principles

Risk Management and Environment

Chrysaor takes a systematic approach to the management of safety, environmental and operational risk. Chrysaor seeks to minimise the negative impact of its business activities and continually looks for ways in which it can further improve.

Integrity and Ethics

The highest standards of integrity are fundamental to the way we conduct business. This ethical approach extends to our behaviour in the workplace. We will ensure full compliance with relevant laws and rules. We will observe high standards of corporate governance and are committed to transparency and fair dealing.

Communication

Chrysaor recognises the importance of regular two-way communication with its stakeholders and the added value of listening and responding honestly and responsibly without compromising business confidences. Chrysaor encourages its people and stakeholders to immediately report to management any aspect of the Group's business or operations which does not or may not meet the high standards set out within our core values and business principles.

Excellence

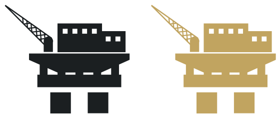
Chrysaor recognises that the delivery of quality across all discipline areas is fundamental to its success. The implementation of a systematic means of managing our work processes is critical to achieving business excellence.

Economics

Through being a successful, responsible and profitable company, we can create sustainable shared value and prosperity for our stakeholders. We believe that by pursuing business efficiency that supports all our commitments we can improve competitiveness and performance.

Group Strategic Report continued

Key



OPERATED NON OPERATED

Map illustrating Chrysaor asset portfolio (April 2018)

Operations report

Background

Chrysaor completed the acquisition of the UK North Sea portfolio on 1 November 2017. The portfolio is diversified and balanced in terms of oil, gas and condensates production, operated and non-operated assets and number of operators. Further details of the assets in the portfolio can be found below.

The asset description and performance within this Operations report primarily covers the two-month period November and December 2017, with the other main activity of transition carried out prior to completion of the deal described in the 'Strategy and acquisition of package of North Sea assets' section.

The portfolio is capable of production in the range 120-130 mboepd, which it achieved in January 2018, but only produced an average of 99 mboepd during the first two-month period of ownership in 2017. This was due to the Forties Pipeline System (FPS) being shut down by its operator, INEOS, after a crack was discovered in an onshore part of the line in December 2017. FPS is one of the main hydrocarbon transportation systems in the UK and around 85 North Sea fields were also shut-in during this period. The resulting shutdown reduced the daily production by over 70 mboepd for around three weeks. The fields affected by this shutdown were Buzzard, Elgin-Franklin & Glenelg, the Armada, Everest and Lomond hubs.

OPERATED ASSETS

Chrysaor operates three gas and condensate fields in the Central North Sea – Armada, Everest and Lomond hubs.

ARMADA

Chrysaor has agreed to acquire from Spirit Energy the balance of equity it doesn't own in order to take its ownership in the Armada hub to 100%. The Armada hub fields consist of the Drake, Hawkins and Fleming gas and condensate fields, with UK Sector tie-backs SW & NW Seymour and Maria. Also tied back to this installation are the third-party fields of Rev (Repsol Norge operated) and Gaupe (Shell operated) in the Norwegian Sector.

In November 2017, Chrysaor took over operatorship of the Armada platform and took the strategic decision to extend the field life of the asset, with plans for drilling on Maria, Hawkins and Seymour fields in 2018 and 2019. Previously, the plan for the Armada hub had been to apply for the cessation of production from June 2018. Given the significant change in plans for the installation, Chrysaor has reviewed its maintenance & Asset Integrity plans to ensure continuing safe operations. The hub produced 3.5 mboepd net during November and December 2017.

EVEREST

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

North Everest's 2 train plant is very stable operating at over 85% efficiency, excluding planned outages. As spare ullage appears, plans will include infill drilling in the EEE area and potentially further exploration to the west of the installation following an extensive seismic shoot around Everest in summer 2018. Maintenance & Asset Integrity plans are being modified to match the intended extended asset life. The field produced 12.2 mboepd net during November and December 2017.

LOMOND

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

Lomond has historically suffered from poor uptime due to plant reliability and export issues; impacting both Lomond and Erskine production. When Chrysaor became operator, plans were put in place to replace a 26 km section of the export line which hadn't been effectively pigged since 2009. The line became blocked on 16 January 2018 and subsequent attempts to unblock have been unsuccessful, so the partial replacement of the line will take place in summer 2018. In addition, a full maintenance/Asset Integrity review of Lomond is ongoing to improve plant reliability and match the intended extended asset life with potential tie-backs. The hub produced 6.8 mboepd net during November and December 2017.

NON-OPERATED ASSETS

BERYL

Chrysaor has a c.39.5% interest in the Beryl area. The Beryl area is operated by Apache and consists of the Beryl, Buckland, Callater, Ness, Nevis and Skene fields along with the Storr discovery. The Beryl oil and gas field has been developed in three phases. The first two phases developed the oil reserves using a large concrete platform (Beryl 'Alpha') in the south of the field, together with a smaller steel platform ('Bravo') to the north. A separate riser platform bridge-linked to Beryl 'Alpha' was installed in 1990 to deal with the third gas phase.

Chrysaor is working closely with Apache to identify near field targets with a quick turnaround to production following the success of the Callater field. Storr is planned for FID in 2018 with production as early as 1Q 2019. In addition, Chrysaor is actively supporting Apache by offering critical resource for the reinstatement of key compression systems which has resulted in improved production performance. The fields produced 18.4 mboepd net during November and December 2017.

BRESSAY

The Bressay field is a discovery east of Shetland near to the Mariner field. Chrysaor has an 18% interest and the field is operated by Statoil and is at concept select stage. There is a large potential resource if an economic solution can be found and a number of options, such as a standalone or a possible tie-back to Kraken, are available. Lessons from Statoil's Mariner project, another heavy oil development, could prove to be important.

Group Strategic Report continued

BUZZARD

Chrysaor has a 21.7% interest in Buzzard, one of the largest producing field in the UK Continental Shelf since its start-up in 2007. Located in the Outer Moray Firth 100 km north-east of Aberdeen, the field straddles licenses P986 and P928 (blocks 19 and 20). Buzzard facilities comprise four bridge-linked steel platforms which support wellhead and production facilities, utilities/living quarters, and a further Hydrogen Sulphide stripping platform. The Buzzard asset delivered excellent operational performance in 2017, consistently delivering 30 mboepd net to Chrysaor with over 90% uptime. The field produced 23.1 mboepd net during November and December 2017, impacted by the FPS outage.

Buzzard's considerable remaining reserves are being further developed through two projects to be delivered in the 2018-2021 period. An infill drilling campaign will commence in 2018 off the wellhead platform, targeting multiple low-risk targets within the main Field area. A subsea tie-back will also develop new reserves in the northern area of the field, installing additional production and water injection capability during 2020/2021.

Chrysaor is working closely with Buzzard partners to ensure that this asset continues to produce its reserves safely and efficiently into the late 2030s.

ELGIN-FRANKLIN

Chrysaor has a 14.1% interest in the Elgin-Franklin hub which is operated by Total. Elgin and Franklin are two high pressure and high temperature gas and condensate fields, which started production in 2001. They are located in the UK North Sea, approximately 240 km east of Aberdeen. The Elgin field was discovered in 1991 and the Franklin field in 1986. The Elgin-Franklin facilities consist of: Elgin, a wellhead platform for the Elgin field and for the Glenelg satellite field, which is a production, utilities and quarters (PUQ) platform connected to the Elgin wellhead platform by a 90 m bridge; and Franklin, situated 5 km south of Elgin, a wellhead platform for the Franklin field, which also allows production from the West Franklin satellite field. The hub produced 15.1 mboepd net during November and December 2017.

The Elgin-Franklin field has just commenced a significant infill drilling campaign supported by Chrysaor. Franklin infill drilling is ongoing and Chrysaor is ready to support Total in signing a rig for the West Franklin & Elgin infill campaigns. Risks associated with the costs & longevity of the liquid export route are being addressed by the operator, with Chrysaor's support.

J-AREA

Chrysaor has a range of equity interest (between 30-35%) in the J-Area. The J-Area comprises four fields: Jade, Joanne, Jasmine and Judy. The Judy and Joanne developments involve central processing and riser/separation platforms on Judy and a subsea development on Joanne. Development of the Jade field has been via a minimum facilities wellhead platform tied back to and controlled from the Judy platform. Jasmine, located 9 km west of Judy, has been developed using two bridge-linked platforms tied back to a new riser platform at Judy. The fields produced 14.7 mboepd net during November and December 2017.

The J-Area is planning to commence an infill drilling campaign from the Jasmine wellhead platform in 2018.

SCHIEHALLION

Chrysaor has a 10% interest in the Schiehallion field. Schiehallion was first developed in the mid-1990s and has produced over 320 million barrels of oil since start-up in 1998. The major Quad 204 re-development project delivered the new Glen Lyon FPSO to the field in 2017, along with extensive additional subsea infrastructure. The vessel is expected to be capable of producing 130,000 bopd, and unlocks significant reserves extending Schiehallion field life out to the late 2030s.

Chrysaor is actively working with our partners to optimise the ongoing infill campaign, reduce well costs and steer reservoir management. With the steady ramp-up of production since the Glen Lyon start-up in May 2017, there is a focus on driving vessel operational efficiency which is delivering good results. The field produced 5.0 mboepd net during November and December 2017.

Financial report

The 2017 consolidated accounts reflect:

- post-acquisition two months, November and December of operational performance contributed by the acquired assets;
- the transition readiness project ('Transition') ahead of completion; and
- a year of the legacy Chrysaor business.

As a result of the acquisition, management undertook a review of the functional and presentational currencies of the subsidiary entities and decided to change the Group presentational currency from UK Sterling to US Dollars.

The main assets of the Group were owned for only two months in 2017 and during that period management focussed on key performance indicators of safety, production, revenue, operating costs per barrel, capital expenditure and cash generation, these are discussed further below. For 2018 a key performance indicator scorecard underpinned by a corresponding budget have both been approved by the Board. This scorecard includes similar financial metrics as for 2017 as well as certain non-financial measures in respect of safety, maintenance, operational performance and reserves.

Acquisition

The acquired portfolio consists of the operated producing fields of the Armada, Everest and Lomond hubs. On the non-operated side, the portfolio includes the producing fields of Buzzard, Elgin-Franklin & Glenelg, Beryl, J-Area, Schiehallion and the development field of Bressay.

The acquisition consisted of two Sale and Purchase Agreements (SPAs):

- a Corporate SPA, under which Chrysaor wholly purchased the vendor subsidiary company BG International (CNS) Ltd (later renamed Chrysaor North Sea Limited), which contained the Armada hub and Elgin-Franklin & Glenelg fields and a small interest in the Everest field; and
- an Assets SPA, which contained the rest of Everest, Lomond hub, Erskine, Buzzard, Beryl, J-Area, Schiehallion and Bressay assets.

The headline price of the deal was $3.0 billion at the economic date of 1 July 2016. After reflecting the contribution from the acquired assets during the interim period along with other customary adjustments which together amounted to $0.6 billion, the consideration payable to the vendor under purchase price accounting as at the date of completion was $2.4 billion. This consisted of $2.2 billion cash paid on completion, including a $0.1 billion deposit previously paid, and a deferred cash consideration of $0.2 billion payable in April 2018.

As at the date of these financial statements and pursuant to the terms of the SPAs, negotiations were ongoing as to the final consideration payable as a result of review of the interim period transactions.

The consideration of $2.4 billion funded the identified assets and liabilities of the acquisition, which amounted to producing assets of $4.3 billion offset by decommissioning provisions of $1.7 billion and deferred tax provisions of $0.7 billion, resulting in goodwill of $0.5 billion.

By the completion date, financing of $2.3 billion had been provided from three sources to fund the acquisition and Transition activities. Chrysaor's shareholders provided total cash funding of $0.8 billion from new equity and loan notes plus $0.1 billion deposit paid direct to the vendors on behalf of the Group. Senior debt from a new Reserves Based Loan (RBL) facility of $1.5 billion of which $1.0 billion was drawn down at completion and a junior debt facility from the vendor of $0.4 billion.

Further details of the acquisition can be found in note 14 to the accounts, borrowings and debt facilities in note 21 and equity structure in note 24.

Production and revenue

Production during the two months of November and December 2017 averaged 99 mboepd.

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

Total revenue earned from production amounted to $313.5 million, with crude oil sales amounting to $203.6 million, with a realised price of $59.5/boe, and gas revenue of $86.0 million, with a realised gas price of 43p/therm. Realised prices take into account the impact of the hedging programme required pursuant to the requirements of the RBL facility. Condensate sales amounted to $23.9 million.

Operating profit

For the year ended 31 December 2017, the operating profit of $45 million reflects only two months contribution from the acquired assets compared to a full year of administration costs and exploration activities associated with the legacy Chrysaor business, in addition to the project Transition costs.

Cost of sales for the period totalled $190.1 million. Of this, operating costs including insurance were $90.6 million, equivalent to $15.0/boe.

Group depreciation, depletion and amortisation (DD&A) charges on oil and gas assets amounted to $99.6 million, equivalent to $16.5/boe.

General and administration expenses for the year amounted to $29.4 million, which included $22.0 million relating to the transition period up to 31 October.

A charge of $21.0 million was recognised in respect of fair value changes of the contingent consideration as a result of the acquisition. Potential contingent consideration payments to the vendor are linked to higher sustained future commodity prices and exploration success in the Beryl and J-Area.

The Group retained an interest in a royalty stream resulting from the disposal of a pre-production development in 2015. A $9.2 million charge was recognised in the year relating to the re-measurement of the future value attributed to this royalty stream.

Cost of sales also included a $4.8 million expense in respect of movements in overlift/underlift and movement in hydrocarbon inventories.

Exploration and evaluation expenditure

During the year, the Group expensed $18.6 million on exploration and appraisal activities, comprising $7.3 million of licence relinquishments and uncommercial well evaluations and $11.3 million of pre-licence expenditure.

Group Strategic Report continued

Net financing costs
Financing costs totalled $44.0 million, including debt facilities and loan note interest expenses of $31.1 million, facility fees of $5.2 million and the unwinding of discount on provisions, primarily associated with future decommissioning obligations, of $7.6 million.

Of the interest expense, $15.2 million relates specifically to shareholder loan notes, which has been accumulated within borrowings for future settlement in accordance with the terms of the loan note agreements.

Taxation
Taxation charges amounted to $258.5 million, split between the current tax charge of $6.0 million and a deferred tax credit of $264.5 million. The deferred tax credit is driven by the recognition of tax losses arising from the claiming of previously unutilised capital allowances. As a result of the acquisition, the future taxable profits of the Group increased sufficiently to allow the previously unrecognised deferred tax asset associated with these losses to be recognised in full.

Profit after tax and dividends
Profit after tax was $259.0 million and there were undeclared dividends of $2.1 million pertaining to the 10% cumulative redeemable preference shares relating to the period before the signing of the SPAs, which were not paid. The full dividend reserve was moved to retained earnings as a result of the signing.

Capital expenditure
During the year, the Group incurred capital spend of $57.8 million relating to property plant and equipment split between producing assets, with $35.5 million mainly spent on J-Area, Beryl and Schiehallion, and $22.3 million on fixtures and fittings mainly for information technology infrastructure assets incurred during the transition, plus the fit-out of the new Aberdeen office, which opened in October 2017.

Operating cash flow
Operating cash flow amounted to $187.6 million before working capital movements and $54.0 million after working capital movements. This operating cash flow helped raise cash balances at 31 December 2017 to $299.5 million, which included a $200 million additional drawdown from the RBL facility in December.

Balance sheet and capital structure
At 31 December 2017, the balance sheet showed net assets of $319.8 million, consisting:

- non-current assets of $4,809.6 million comprising oil and gas assets $4,294.8 million, goodwill $500.1 million and other financial assets $14.7 million, and
- net current assets of $130.6 million, less
- non-current liabilities of $4,620.4 million comprising of borrowings $2,414.3 million, decommissioning and other provisions $1,758.7 million and other financial liabilities $72.7 million.

Total equity balance of $319.8 million consists of share capital and premium of $234.8 million, retained reserves of $131.2 million and other reserves which show a total deficit of $46.2 million, including a cash flow hedge reserve deficit of $43.7 million. Shareholders contributed $67.3 million of new equity during the year, net of issue costs.

Total debt raised during the year amounted to $2.4 billion, consisting of: senior RBL debt of $1.2 billion, split between $1.0 billion to fund the acquisition plus a further $0.2 billion drawn down as a protective measure during December to increase liquidity given the FPS pipeline shutdown and given the range of acquisition opportunities under review by the Group; and, junior debt from the vendor of $0.4 billion. Unutilised RBL debt capacity at 31 December 2017 was $0.1 billion, comprising the total facility of $1.5 billion less $1.2 billion drawn down and $0.2 billion utilised for letters of credit. Financing raised by the Group also includes $0.8 billion contributed by shareholders in the form of loan notes which are accounted for as a financial liability in accordance with IFRS principles and therefore included within total borrowings.

Net debt at 31 December 2017 totalled $2,114.8 million and consists of total borrowings after arrangement fees of $2,414.3 million, less cash and cash equivalents of $299.5 million. There was no debt repaid during the period.

Liquidity of the Group is strong given the acquired portfolio consists of almost entirely producing assets with low operating costs and is therefore highly cash generative. The Group's debt facilities, including the accordion option feature, also provide a strong base to future funding. The RBL facility at 31 December 2017 had a straight-line amortisation which commences in December 2018 and reduces the $1.5 billion capacity by $166.7 million every six months, subject to the bank's reserves audit processes. However, Chrysaor, in line with market practice, intends to propose changes to the facility and add additional reserves in to the borrowing base which will provide increased debt capacity. The junior facility has first repayment in mid-2019 and regular six-monthly repayment until mid-2023.

Derivative financial instruments
Chrysaor undertakes hedging activity to manage commodity price risk to ensure that it is compliant with the requirements of the RBL facility and ensure that there is sufficient funding for future investments.

During the year, Chrysaor entered into a series of fixed priced sales arrangements in addition to a financial hedging programme for both oil and gas consisting of swap instruments. Future production volumes hedged under the physical and financial arrangements in place as at 31 December 2017 are set out below.

Hedge position	2018	2019	2020
Oil			
Volume hedged (mmboe)	13.51	4.75	3.11
Average price hedged ($/bbl)	$56.31	$56.32	$55.15
Gas			
Volume hedged (mmboe)	9.48	10.10	6.86
Average price hedged (p/therm)	43.5p	44.4p	43.9p

At 31 December 2017, Chrysaor's financial hedging programme showed a negative fair value of $72.9 million. A pre-tax charge was taken to the profit and loss account of $0.3 million, representing ineffectiveness under the hedge accounting rules.

Insurance
Chrysaor undertakes significant and appropriate range insurance programmes to minimise the risk to its operational and investment programmes, which includes business interruption insurance.

Principal financial risks and uncertainties
The principal financial risks that management consider the Group to be exposed to are:

- commodity prices and foreign exchange market volatility;
- asset operational performance and drilling results; and
- maintaining cash flow, liquidity and access to funding.

For a further discussion of these risks and uncertainties refer to page 14.

Group Strategic Report continued

Principal risks

Below are the principal risks that the Board consider the Group is exposed to and which are considered to be the most significant due to their likelihood and magnitude of potential consequence.

Delivery of strategy

The Board is responsible for setting the strategy of the Group, which is focused on organic growth as well as acquisition within a defined geographical area.

Organic growth can be achieved by prudent management of the existing portfolio and acquisition of new acreage. The risk is that the assets do not perform optimally or poor acreage is acquired and value is not maximised from the portfolio.

Mitigation is provided by robust planning and technical analysis, combined with a strict capital allocation programme to ensure that funds are applied to the most technically and economically attractive activities and opportunities. This is subsequently complemented by performance management and reporting of the assets.

Acquisitions by their nature require willing buyers and sellers in a market and such opportunities come with the risks surrounding the market, competitors, nature of portfolio and commercial leverage. These risks may prevent the Group achieving its strategic growth objectives if deals cannot be completed. Even with successful acquisitions, there are risks which may result in impairments and adverse cash flow in the acquired assets compared with the assumptions underpinning the acquisition.

Mitigation for acquisition is provided by ensuring a full understanding of the assets in the market, with experienced Chrysaor functional expertise supported by competent third-party advisors for pre-acquisition due diligence, negotiations and commercial activities.

Disruption to production

Disruption to production directly affects operating cash flow and can occur at an asset or pipeline level. The majority of the Group's production to onshore terminals flows through two third-party pipelines; Forties Pipeline System (FPS) for oil and CATS pipeline system for gas and condensates. There are two FPSO offtakes onshore for crude oil for Beryl and Schiehallion fields. The risk is that a pipeline or FSPO is shut-in and production ceases, which significantly impacts the operating cash flow of the business, and in turn constrains support to the existing business and discretionary investments.

In respect of mitigation, the Chrysaor production portfolio is well diversified in terms of operated and non-operated assets, oil and gas production, a range of operators on the non-operated side of the business and offtakes via pipelines and offshore FPSOs. The Group also has appropriate business interruption insurance policies in place.

Operational safety

The inherent nature of the oil and gas industry means that it has significant exposure to a major operational incident and hence operational safety is of paramount importance.

Chrysaor is the operator of three platforms and has two other technical operatorships for production assets, in addition to a few operated exploration licences. As such, Chrysaor needs to ensure the safety of people, assets and the environment. The impact of any incident could result in injuries or fatalities, damage to assets or the environment, reputational damage with stakeholders and regulatory authorities, loss of operating cash flow and exposures to punishments and fines.

Mitigation is provided via Business Management System (BMS) policies, standards, guidelines, manuals and procedures which employees and vendors are required to adhere to where appropriate. Standards and procedures cover well and development design, asset integrity and maintenance plans, Safety Case procedures, management assurance and peer reviews.

In addition, there are specific requirements relating to incident and emergency response plans and appropriate incident insurance policies.

Asset performance and drilling results

Chrysaor is active across all life cycle phases and the results of drilling, production and reservoir performance. This is subject to the inherent risks and nature of the assets and results of drilling and production operations initiatives. The impact of poor drilling results can lead to little or no commercial success, resulting in exploration write-offs or impairment of the producing assets and the corresponding adverse cash flow effects. Likewise, within the production phase, asset and turnaround plans may not be as successful as anticipated.

Mitigation comes in the form of high-quality well design for drilling programmes and appropriately planned turnaround operational work programmes, supported by high-quality technical and geoscience analysis and economic evaluation of the opportunities and value assurance framework, which provides for project gateway and peer reviews.

Cyber security
Cyber security threats pose a significant risk, which can cause business interruption and result in reputational damage, financial loss and the potential exposure of commercially sensitive information.

Chrysaor takes the threat of a cyber-attack very seriously. To mitigate this risk to an acceptable level, Chrysaor has implemented a defence-in-depth approach. Chrysaor has invested in technologies to reduce the risk of a successful cyber-attack from external or internal threat agents.

Chrysaor is ensuring that its IT processes and procedures adhere to industry standard best practices, such as the ISO27001/2 IT Security Framework. Mandatory information security training is provided for all employees and contractors, and IT security engage with staff through a monthly cyber newsletter aimed at raising awareness within the business.

Chrysaor has selected several industry leading vendors to further strengthen its security position and help to form the backbone of the Chrysaor Cyber Security estate. Compliance and assurance will be maintained through regular penetrations tests and application scanning for the critical systems, as well as incident response planning and training.

Commodity prices and foreign exchange
Commodity prices for oil and gas and foreign exchange rates are subject to market volatility and are a key driver of the magnitude of operational cash flow and reserve-based lending (RBL) facilities.

Operational cash flow funds the operational and administrative expenditure of the Group, with any surplus available for discretionary spend on capital exploration or development activities or debt repayments. Insufficient surplus operating cash flow or lack of debt capacity will constrain the Group's ability to invest in new activities that sustain the life cycle pipeline of assets and ultimately its future production.

Mitigation comes in the form of Board-approved hedging programmes, which are primarily driven by minimum hedging requirements under the RBL facility. Additional discretionary hedging programmes are also available.

Cash flow, liquidity and funding
Chrysaor has access to liquidity and funding from three main sources; debt and equity from its shareholders, debt funding in the banking and capital markets and operating cash flow from the production assets. This may be supplemented by disposal proceeds from any portfolio management activity.

The potential risk is that if certain conditions arise, then funding from these sources may become restricted, which in turn could reduce investment opportunities in discretionary projects or create debt servicing issues.

To mitigate this risk, Chrysaor ensures balanced access to all three of these funding sources, supported by hedging programmes to safeguard a proportion of future revenue cash flows. The Group also has a robust planning cycle and capital allocation programme to ensure investment to the appropriate levels. In addition, Chrysaor produces performance reporting and forecasts across both short-term and life-of-field time horizons to assist in asset and portfolio management.

Compliance
Chrysaor has a Compliance Programme which seeks to inform and monitor adherence by all employees and contractors towards a high standard of ethical behaviour.

The risks of non-compliance are inappropriate behaviour, breach of legal requirements, punitive fines and penalties and significant damage to reputation and our ability to operate.

Risk mitigation is provided by awareness programmes, leadership reviews and initiatives, self-certification via annual reviews, gift and hospitality registers and contractual provisions and reviews with vendors.

Further details on governance and compliance can be found in the Corporate Governance sections.

Stakeholder relations
Positive stakeholder relations and their appropriate management are very important to Chrysaor's business. Primary stakeholders include equity shareholders, debt providers, joint venture operators and partners, and primary regulatory authorities such as the Oil and Gas Authority (OGA), Offshore Petroleum Regulator for Environment & Decommissioning (OPRED) and the Health and Safety Executive, as well as employees and vendors and non-governmental organisations.

The risk is that without continued and appropriate engagement with stakeholders, the Group's safety, technical and financial status and asset performance may be compromised.

Chrysaor proactively engages with all its stakeholders with an open and positive attitude. The company is respectful towards people, assets and the environment, and seeks to ensure adherence to its compliance policies by employees and its stakeholders where appropriate.

Risk management
Risk management is ingrained in Chrysaor's daily activity and is designed to facilitate the delivery of our strategy, while protecting the Group's assets and employees, as well as the environment.

The Board is responsible for the implementation of an effective risk management and internal control environment to enable the identification and robust assessment of our principal risks, which are detailed in the Principal Risks section.

Chrysaor has deployed a strong risk management governance structure and effective internal control environment to facilitate the identification, monitoring, management and reporting of risks. As part of the transition project described in the 'Strategy and acquisition of package of North Sea assets' section, Chrysaor implemented its online Business Management System (BMS), which holds all its policies, standards, guidelines, manuals and procedures. Specifically, the BMS is designed to identify and mitigate operational, major accident hazard and business risks, and ensure legal compliance to regulatory requirements. The BMS also provides a governance framework, with guidance on the roles, responsibilities and accountabilities relating to risk management at the various levels within the business.

Corporate Governance

The Board

Linda Cook (Chairman)
Linda Cook is currently CEO of Harbour Energy and also a Managing Director and member of the Executive Committee of EIG. Ms. Cook retired from Royal Dutch Shell plc in 2010, at which time she was a member of the Board of Directors and the Executive Committee. During her 29 years with Shell, she held positions including CEO of Shell Gas & Power (London and The Hague); CEO of Shell Canada Ltd. (Calgary); EVP Strategy & Finance for Global Exploration & Production (The Hague); and various U.S. Exploration & Production management, operational and engineering roles.

In addition to serving on Shell's Board of Directors for five years, Ms. Cook has prior experience as a non-executive director for The Boeing Company (over ten years), Cargill Inc., Marathon Oil Co., and KBR Inc. She currently serves as a non-executive director on the board of Bank of New York Mellon.

Phil Kirk (Chief Executive Officer)
Phil Kirk qualified as a chartered accountant with Ernst & Young in 1991 before joining Hess in 1996. He served in a variety of roles including Head of Finance, North West Europe. After leaving Hess in 2002 he set up CH4 Energy with two other ex-Hess colleagues. Mr. Kirk was joint MD of CH4 which, with financial backing from 3i plc and Trust Company of the West ("TCW") (an EIG predecessor firm), they acquired and operated the Markham field and associated satellites on the UK/Dutch median line. Mr. Kirk founded Chrysaor in 2007 and has led the group since then.

Mr. Kirk has been a member of the Board of Oil and Gas UK since 2013 and is currently Operator Council Co-Chair and Vice Chair of the Board. He has recently completed his time with OGA as co-chair of their UK Exploration Board, one of six boards responsible for driving the industry's response to the OGA strategy and Sir Ian Wood's MER vision. Mr. Kirk continues his work with OGA as a member of the overarching industry body, the MER UK Forum, which includes the Secretary of State for Business, Energy and Industrial Strategy, Ministers from the same department, HM Treasury, the Scottish Office and the Scottish government.

Andrew Osborne (Chief Financial Officer)
Andrew Osborne joined Chrysaor as Chief Financial Officer in 2012. Previously he had over 20 years Capital Markets experience in Investment Banking, latterly as a Managing Director responsible for Merrill Lynch's Natural Resources Equity Capital Markets and Broking business. Mr. Osborne has worked on a significant number of oil and gas transactions for both public and private companies. He has acted as an advisor to most members of the UK E&P Independent sector and has a depth of experience in advising early stage E&P companies, going on to create significant returns for shareholders.

R. Blair Thomas (Non-Executive Director)
R. Blair Thomas is Chief Executive Officer of EIG, as well as Chairman of the Investment Committee and the Executive Committee. EIG was formerly part of Trust Company of the West where Mr. Thomas was a Group Managing Director and a member of the Board of Directors of TCW Asset Management Company. Prior to joining EIG in 1998, Mr. Thomas was a senior investment officer with the Inter-American Development Bank and a project finance attorney at the law firm of Brown & Wood in New York and worked in the White House of President George H. W. Bush as an advisor on energy and budget policy.

Steve Farris (Non-Executive Director)
G. Steven Farris served as Chairman and Chief Executive Officer of Apache Corporation, an oil and natural gas exploration and production company with operations in the United States, Canada, the United Kingdom sector of the North Sea, Egypt, and Australia. Mr. Farris was named Chairman of Apache in January 2009, upon the retirement of company founder Raymond Plank. He was promoted to President in 1994 and Chief Executive Officer in May 2002. Mr. Farris joined Apache in June 1988 as Vice President of domestic exploration and production and was promoted to Senior Vice President in May 1991. Prior to joining Apache, Mr. Farris was Vice President of finance and business development at Terra Resources, a subsidiary of Sempra Energy.

Andrew Jamieson (Non-Executive Director)
Andrew Jamieson has served as a Director of Höegh LNG since 2009 and previously served on the Board of Woodside Energy. Mr. Jamieson retired from the Royal Dutch Shell plc in 2009 where he has served as Executive Vice President of Gas & Projects and Member of the Gas & Power Executive Committee since 2005. At Shell he held positions in The Netherlands, Denmark, Australia and Nigeria. Mr. Jamieson holds a Ph.D. degree from Glasgow University.

John Hogan (Non-Executive Director)
John Hogan has over 40 years of experience in the global oil, gas and oil field services sectors. A geologist by background, he has extensive experience at the Executive level, including at LASMO where he served as Chief Operating Officer.

Mark Brown (Non-Executive Director)
Mark Brown led the management buyout of Barclays Natural Resource Investments private equity business, renamed Global Natural Resources Investments. He currently serves as Managing Partner.

Bob Edwards (Non-Executive Director)
Bob Edwards currently serves as a Partner of NGP Energy Capital and is a former Partner in the Energy Practice at McKinsey & Company and was an executive at BP, Marathon, and Brown and Root International.

Governance and compliance

The Chrysaor Board comprises one Non-Executive Chairman, six Non-Executive Directors and two Executive Directors. The composition of the Board ensures a balanced, independent and accountable approach to the ultimate aim of the business of delivering superior equity returns and creating a market leading North European E&P company.

The Chrysaor Board meet on a regular basis to review business performance, set strategic goals and determine key policies for the effective operation of the business in an ethical and legally compliant manner.

The Chrysaor Board operates within a framework of internal controls. These internal controls are underpinned by our core values and business principles, which set out Chrysaor's commitment to maintaining a high standard of integrity and ethical conduct. The business principles are supported by a number of key policy documents, such as our Anti-Bribery and Corruption Policy, Gifts & Hospitality Standard and Conflicts of Interest Standard, framed in line with UK legislation and modern industry practices, and delivered through a bespoke Compliance Programme for the business. This involves regular communications to all employees and contractors reminding them of their duties and obligations and the provision of e-learning and training modules on the Chrysaor Learning platform.

Regulatory compliance

The Armada, Lomond and North Everest offshore installations are regulated by the Offshore Safety Directive Regulator (OSDR), a partnership between the Health and Safety Executive (HSEx) and the Offshore Petroleum Regulator for Environment & Decommissioning (OPRED) relating to health, safety and environmental matters.

Regulatory issues relating to licensing, exploration, development and the maximisation of economic recovery from the United Kingdom Continental Shelf (UKCS) are dealt with by the Oil and Gas Authority (OGA).

All necessary permits and consents to achieve the compliant operation of the assets at deal completion were developed, submitted and put in place according to the transition plan schedule.

As installation operator, Chrysaor are responsible for the provision of a safe system and place of work at its on and offshore facilities. As part of the transition process, Chrysaor inherited the previous operator's Business Management System (BMS), which contains the organisation's policies, management standards and procedures, and forms the principal means by which Chrysaor demonstrates compliance with its statutory duties and business goals and objectives.

There were no serious incidents, accidents or permitry non-conformances reported during Chrysaor's initial period of operatorship in November or December 2017.

Directors' Report and Financial Statements

Directors' Report

The directors present their report for the year ended 31 December 2017.

Directors
The directors who served the Company during the year and up to the date of the financial statements were as follows:

F Gugen (Non-Executive Chairman)
Resigned 30 January 2017

M Brown (Non-Executive Director)

R Covington (Non-Executive Director)
Resigned 30 January 2017

R Edwards (Non-Executive Director)

J Hogan (Non-Executive Director)

P Kirk

A Osborne

R Poddubiuk
Resigned 30 January 2017

On 30 January 2017, R Covington, F Gugen and R Poddubiuk retired as directors as the Company and the following directors were appointed:

L Cook (Non-Executive Chairman)
Appointed 30 January 2017

S Farris (Non-Executive Director)
Appointed 30 January 2017

A Jamieson (Non-Executive Director)
Appointed 30 January 2017

R B Thomas (Non-Executive Director)
Appointed 30 January 2017

The change of directors reflects the change in the governance and shareholder structure of the Group resulting from the acquisition described on page 5 and new shareholder agreements signed on 30 January 2017.

Secretary
W Dashwood
Resigned 16 February 2017

H Landes
Appointed 16 February 2017

Results and dividends
The Group's profit for the year after taxation amounted to $259.0 million (2016: $ 7.2 million). The directors do not recommend the payment of a dividend (2016: $nil).

Financial instruments
The Group finances its activities with a combination of loans, cash and short-term deposits. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Group'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 above in the Strategic Report and note 23 to the financial statements.

During the year the Group entered into a combination of fixed price physical sales contracts and cash-settled financial commodity derivatives during the period to manage the price risk associated with Group's underlying oil and gas revenues. Back to back agreements were put in place for the derivative contracts with two fellow subsidiaries of the Group, Chrysaor Limited and Chrysaor North Sea Limited.

Directors' liabilities
At the date of signing these financial statements, the Group 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.

Statement of directors' responsibilities
The directors are responsible for preparing the report and the financial statements in accordance with applicable law and regulations.

The shareholders agreement entered into on 30 January 2017 requires the directors to prepare financial statements for each financial year. Under that agreement, the directors have elected to prepare Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The financial statements are required to give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the Group and Company financial statements the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group and Company;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance;
- state whether the Group and Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Post balance sheet events
Chrysaor announced on 22 March 2018 that it had entered into an agreement with Spirit Energy to acquire its entire interests in the Armada, Maria and Seymour fields. As part of the transaction, Spirit Energy will retain associated liability for decommissioning subject to a cap. As a result of the acquisition, Chrysaor will own 100% of the Armada hub. On 26 March, Chrysaor announced an agreement to acquire 15% equity in the Grevling discovery in the Norwegian North Sea with an option to acquire a further 20% for a total of 35%. Both agreements are subject to regulatory approvals.

The RBL facility has an accordion option which was exercised in February 2018 to increase the facility by $500 million. At the time of this report, the application process was being run with applications significantly higher than the magnitude of the accordion facility. The final allocations are anticipated to be made by the end of April 2018.

Going concern
The directors have adopted a going concern basis of accounting for the preparation of the financial statements. Cash flow forecasts and sensitivities are prepared and reviewed by management on a regular basis, with sensitivities typically run for changes in commodity prices and asset performance. These models and sensitivities provide assurance that the Group will be able to meet it cash flow and funding requirements, as well as adhere to financial and liquidity covenants.

Chrysaor's management forecasts show that for the next twelve months and the foreseeable future, the Group will be able to operate and generate sufficient operating cash flow to sustain investment in discretionary capital projects, as well as repay debt as it falls due.

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 auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors
EY are expected to resign after the approval of the 2017 report and financial statements and a resolution to appoint PwC as auditors will subsequently be submitted to the Board.

On behalf of the Board
A Osborne (Director)
25 April 2018

Independent Auditor's Report to the members of Chrysaor Holdings Limited

Opinion

In our opinion:

- Chrysaor Holdings Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

We have audited the financial statements of Chrysaor Holdings Limited which comprise:

Group	**Parent company**
Consolidated balance sheet as at 31 December 2017	Balance sheet as at 31 December 2017
Consolidated statement of profit and loss and other comprehensive income for the year then ended	Statement of profit and loss and other comprehensive income for the year then ended
Consolidated statement of changes in equity for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Statement of cash flows for the year then ended
Related notes 1 to 27 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 27 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.

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 Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent 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 as applied to listed entities, 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.

Use of our report
This report is made solely to the company's members, as a body. 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 an auditor's report 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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Overview of our audit approach

Key audit matters	• Valuation of the oil and gas assets acquired from Shell, specifically the judgements around the purchase price allocation at the date of acquisition • Valuation and subsequent potential impairment of Goodwill on acquisition • Revenue recognition due to management override risks relating to entitlement and overlift/underlift • Valuation of the decommissioning provision
Audit scope	• We performed an audit of the complete financial information of 3 components and audit procedures on specific balances for a further 2 components. • The components where we performed full or specific audit procedures accounted for 100% of Profit before tax and Revenue and 96% of Total assets in the group financial statements.
Materiality	• Overall group materiality of US$55m which represents 1% of total assets.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the members of Chrysaor Holdings Limited continued

Risk

Valuation of the oil and gas assets acquired from Shell, specifically the judgements around the purchase price allocation (US$4.2bn; PY US$nil)

Refer to the Accounting Policies (page 36) and Note 14 of the Financial Statements (page 50)

Chrysaor was required to recognise the assets acquired and liabilities assumed from Shell at the acquisition-date fair values. The valuation of oil and gas assets is highly judgemental and complex, requiring significant judgements and estimates in applying forecasts and assumptions to complex valuation models.

Given the extent of the judgement in valuing some of the assets we believed that the fair value calculation exercise carried with it a significant risk of material misstatement.

Our response to the risk

Chrysaor management engaged third-party experts to provide valuation support with respect to the determination of the fair values of assets and liabilities acquired from Shell under IFRS 3. Our team included valuation and business modelling specialists who have extensive experience in the valuation of oil and gas assets and liabilities.

Our procedures – which were performed by our group team and specialists, as appropriate – focused primarily on the risks relating to the valuation model and assessed the assumptions and judgements associated with the estimation of the fair value measurements.

Our audit procedures included:

- gaining an understanding through enquiry and review of the valuation methodology adopted by Chrysaor;
- assessing the appropriateness of key assumptions, including oil and gas prices and discount rates, by comparing them with external benchmarks;
- Where reserve and resources volumes have a material impact on the financial statements, we validated these volumes and assumptions against underlying information;
- using our modelling team to audit the integrity of the models used in the valuations;
- verifying the consideration paid and agreeing to external evidence; and
- considering the accounting treatment of the business combination, contingent consideration and disclosures under IFRS criteria, to conclude whether these were appropriate in all circumstances.

Key observations communicated to management

We have confirmed that we have not identified any material errors in the valuation model used by management to determine the values for the oil and gas assets acquired. We concluded that the inputs and assumptions used in the fair value calculations are reasonable and consistent with other areas of the financial statements, where applicable.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk

Valuation and subsequent potential impairment of Goodwill on acquisition (US$499m; PY US$nil)

Refer to the Accounting Policies (page 36) and Note 14 of the Financial Statements (page 50)

Chrysaor recognised Goodwill as part of the acquisition of an operating entity and oil and gas assets from Shell. The valuation of this Goodwill at the acquisition date required significant judgements and estimates relating to the fair value of assets and liabilities acquired, including deferred taxation.

Subsequent impairment testing requires management to determine the fair value of the cash-generating unit(s) to which the goodwill relates which necessitates similar judgements and estimates.

Our response to the risk

Our procedures – which were performed by our group team – focused on the valuation of the assets and liabilities acquired, which include the oil and gas assets described above and the decommissioning liabilities described in the key audit matter below. We also focused on key assumptions around long term oil and gas price and the judgements made in adjusting consideration.

Our audit procedures included:

- Validating the consideration and recalculating the goodwill, including any adjustments to the consideration paid;
- involving our tax audit specialists in the audit of deferred tax on acquisition;
- assessing management's process for assessing Goodwill impairment;
- Evaluating the existence of potential indicators of impairment of the goodwill recognised;
- assessing the key changes in the valuation drivers since the valuation date; and
- considering the accounting treatment of Goodwill and disclosures under IFRS criteria, to conclude whether these were appropriate in all circumstances.

These procedures were carried out primarily by the group team, including valuation and business modelling specialists, with input from the EY component team in Aberdeen.

Key observations communicated to management

We have confirmed that we have not identified any material errors in the valuation model used to calculate goodwill at the date of acquisition.

We have concluded that the goodwill, which relates to the acquisition of Shell assets, is not impaired as at 31 December 2017.

Independent Auditor's Report to the members of Chrysaor Holdings Limited continued

Risk	Our response to the risk	Key observations communicated to management
Revenue recognition due to management override risks relating to entitlement and overlift/underlift (Revenues: US$314m; PY US$nil) Refer to the Accounting Policies (page 39) and Note 4 of the Financial Statements (page 41) In accordance with ISAs (UK) there is a presumed fraud risk relating to revenue recognition and management override. We consider the fraud risk relating to revenue recognition to relate to the accounting for entitlement and overlift/underlift positions due to the estimation and judgement that is often required.	Our procedures focused primarily on the key assumptions around oil prices and entitlement volumes. These included: • testing prices used in overlift/underlift calculations to market data; • testing volumes to operator statements and subsequent inventory reports; and • considering the accounting treatment of revenue and disclosures under IFRS criteria, to conclude whether these were appropriate in all circumstances. These procedures were carried out primarily by the EY component team in Aberdeen.	We were satisfied the overall overlift/underlift position and entitlement at the balance sheet date is reasonable.

Risk	Our response to the risk	Key observations communicated to management
Valuation of the decommissioning provision (US$1,751m, PY US$nil) Refer to the Accounting Policies (page 39) and Note 20 of the Financial Statements (page 54) Decommissioning provisions are inherently subjective given they are based on estimates of costs that will be settled in the future. Decommissioning provisions are also affected by changes in estimated costs, oil and gas reserve estimates, discount rates and the estimated date on which production is forecast to cease.	We have tested the reasonableness of management's discount rate and inflation rate used for the decommissioning provision with reference to market data sources; • We assessed the objectivity and competency of the external specialist utilised by management in relation to the cost estimates; • We audited the models used by management to determine the decommissioning cost estimate, including testing the integrity of the model for mechanical and mathematical accuracy; • We assessed the expected cessation of production dates to confirm they were consistent with the valuation model used for the acquisition; and • We considered the accounting treatment of decommissioning and disclosures under IFRS criteria, to conclude whether these were appropriate in all circumstances. These procedures were carried out primarily by the group team, with input from our component team in Aberdeen.	We were satisfied that the components that make up the decommissioning estimate, including the estimated costs, discount rates and cessation of production dates are reasonable and that the year end position is within an appropriate range.

Independent Auditor's Report to the members of Chrysaor Holdings Limited continued

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group, the effectiveness of group wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 7 reporting components of the Group, we selected 5 components covering entities within the UK, which represent the principal business units within the Group.

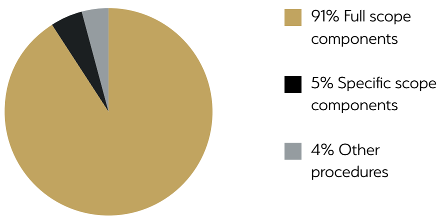
Of the 5 components selected, we performed an audit of the complete financial information of 3 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 2 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the consolidated financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2016: 100%) of the Group's Profit before tax, 100% (2016: 100%) of the Group's Revenue and 96% (2016: 100%) of the Group's Total assets. For the current year, the full scope components contributed 98% (2016: 100%) of the Group's Profit before tax, 100% (2016: 100%) of the Group's Revenue and 91% (2016: 100%) of the Group's Total assets. The specific scope components contributed 2% (2016: 0%) of the Group's Profit before tax, 0% (2016: 0%) of the Group's Revenue and 5% (2016: 0%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 2 components that together represent 4% of the Group's total assets, none are individually greater than 4% of the Group's total assets. For these components, we performed other procedures, including analytical review and testing of intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams for the 2017 audit.

Total assets



Changes from the prior year

The changes in coverage in the current year is a result of the significant change in the business following the Shell transaction at the end of October 2017 and the consequential increase in the number of entities within the group.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 3 full scope components, audit procedures were performed on 1 of these directly by the primary audit team. For the 2 specific scope components, where the work was performed by the primary team, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, the Senior Statutory Auditor discussed the audit approach with the component teams, any issues arising from their work, met with local management, attended planning and closing meetings, and reviewed key audit working papers on higher risk areas. The primary team interacted regularly with the Aberdeen component team during various stages of the audit, including weekly calls during the year end fieldwork, and were responsible for the scope and direction of the audit process. Together with the additional procedures performed at Group level, where the primary team performed the audit work for 3 components directly, this gave us sufficient evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$55 million (2016: US$2 million), which is 1% of Total assets (2016: 5% of Equity). We believe that Total assets provides us with a suitable basis for materiality given the significant focus on the acquisition fair value exercise and the balance sheet values being a key focus for the Group's stakeholders. The change in the basis of materiality from the prior year is driven by the change in the business during the year due to the acquisition.

We determined materiality for the Parent Company to be US$11 million (2016: US$9 million), which is 4% (2016: 5%) of equity.

During the course of our audit, we reassessed initial materiality in the context of the group's and the company's year end financial position and no changes were made.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely US$27.5m (2016: US$0.8m). We have set performance materiality at this percentage due to the significant changes to the Group in the current year.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$5m to US$21m (2016: £US$0.1m to US$0.8m).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with management that we would report to them all uncorrected audit differences in excess of US$2.7m (2016: US$0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The significant change from the prior year is driven by the change in the business during the year due to the acquisition.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report set out on pages 01 to 17, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 19, 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 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 group and parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted inaccordance with ISAs (UK) will always detect amaterial misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

This description forms part of our auditor's report.

Andy Smyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
25 April 2017

Consolidated statement of profit and loss and other comprehensive income

for the year ended 31 December	Notes	2017 $000	2016 Restated $000
Revenue	4	313,500	–
Cost of sales		(190,146)	–
Gross profit		123,354	–
Exploration and evaluation expenses	5	(11,323)	(7,142)
Exploration costs written-off	5	(7,276)	(3,081)
Re-measurements	5	(30,204)	7,753
General and administrative expenses		(29,447)	(2,599)
Operating profit/(loss)		45,104	(5,069)
Finance income	7	260	4,519
Finance expense	7	(44,893)	(1)
Profit/(loss) before income tax		471	(551)
Income tax credit	9	258,527	7,738
Profit for the year		258,998	7,187
Other comprehensive income			
Items that may be reclassified to profit and loss in subsequent periods:			
Fair value losses on cash flow hedges		(72,911)	–
Tax on cash flow hedges		29,164	–
Currency exchange differences		8,287	(10,706)
Other comprehensive loss for the year, net of tax		(35,460)	(10,706)
Total comprehensive profit/(loss)		223,538	(3,519)
Total comprehensive profit/(loss) attributable to:			
Equity holders of the parent		223,538	(3,519)

Company statement of profit and loss and other comprehensive income

for the year ended 31 December	Notes	2017 $000	2016 Restated $000
Revenue	4	–	4,843
Cost of sales		–	–
Gross profit		–	4,843
Other operating expenses		(385)	(180)
General and administrative expenses		(4,835)	(5,900)
Operating loss		(5,220)	(1,237)
Finance income	7	29,251	24,200
Finance expense	7	(15,203)	(1)
Profit before income tax		8,828	22,962
Income tax credit	9	3	–
Profit for the year		8,831	22,962
Currency exchange differences		20,649	(45,389)
Other comprehensive profit/(loss) for the year, net of tax		20,649	(45,389)
Total comprehensive profit/(loss)		29,480	(22,427)
Total comprehensive profit/(loss) attributable to:			
Equity holders of the parent		29,480	(22,427)

Consolidated balance sheet

as at	Note	31 Dec 2017 $000	31 Dec 2016 Restated $000	1 Jan 2016 Restated $000
Assets				
Non-current assets				
Goodwill	10	500,080	–	–
Other intangible assets	11	45,375	7,280	10,744
Property, plant and equipment	12	4,249,439	70	280
Other financial assets	22	14,673	23,542	19,506
Deferred tax	9	–	21,581	17,535
Total non-current assets		4,809,567	52,473	48,065
Current assets				
Inventories	15	91,563	–	–
Trade and other receivables	16	258,499	3,631	1,264
Other financial assets	22	3,000	3,000	3,000
Cash and cash equivalents	17	299,541	4,082	10,168
Total current assets		652,603	10,713	14,432
Total assets		5,462,170	63,186	62,497
Equity and liabilities				
Equity				
Share capital	24	22	1,794	1,794
Share premium		234,801	167,437	167,437
Cash flow hedge reserve		(43,747)	–	–
Currency translation reserve		(2,419)	(10,706)	–
Other reserves		–	154,563	129,326
Retained earnings		131,192	(257,540)	(239,512)
Equity attributable to the owners of the parent		319,849	55,548	59,045
Total shareholders' equity		319,849	55,548	59,045
Non-current liabilities				
Borrowings	21	2,414,333	–	–
Provisions	20	1,758,712	–	–
Deferred tax	9	374,606	–	–
Other financial liabilities	22	72,740	–	–
Total non–current liabilities		4,620,391	–	–
Current liabilities				
Trade and other payables	19	479,520	7,638	3,452
Other financial liabilities	22	42,410	–	–
Total current liabilities		521,930	7,638	3,452
Total liabilities		5,142,321	7,638	3,452
Total shareholders' equity and liabilities		5,462,170	63,186	62,497

These financial statements were approved and authorised for issue by the Board of Directors on 25 April 2018 and were signed on its behalf by:

Andrew Osborne (Director)

Company No. FC027988; UK Establishment No. BR009700

Company balance sheet

as at	Notes	31 Dec 2017 $000	31 Dec 2016 Restated $000	1 Jan 2016 Restated $000
Assets				
Non-current assets				
Property, plant and equipment	12	–	70	280
Deferred tax	9	3	–	–
Investments	13	1,094,030	229,652	245,204
Total non-current assets		1,094,033	229,722	245,484
Current assets				
Trade and other receivables	16	46,659	3,393	1,678
Cash and cash equivalents	17	3	3,666	7,886
Total current assets		46,662	7,059	9,564
Total assets		1,140,695	236,781	255,048
Equity and liabilities				
Equity				
Share capital	24	22	1,794	1,794
Share premium		234,801	167,437	167,437
Currency translation reserve		(24,740)	(45,389)	–
Other reserves		–	154,563	129,326
Retained earnings		92,159	(46,406)	(44,151)
Total shareholders' equity		302,242	231,999	254,406
Non-current liabilities				
Borrowings	21	838,092	–	–
Total non–current liabilities		838,092	–	–
Current liabilities				
Trade and other payables	19	361	4,782	642
Total current liabilities		361	4,782	642
Total liabilities		838,453	4,782	642
Total shareholders' equity and liabilities		1,140,695	236,781	255,048

These financial statements were approved and authorised for issue by the Board of Directors on 25 April 2018 and were signed on its behalf by:

Andrew Osborne (Director)

Company No. FC027988; UK Establishment No. BR00970

Consolidated statement of changes in equity

	Share capital $000	Share premium $000	Cash flow hedge reserve $000	Currency translation reserve $000	Undeclared dividend reserve $000	Share option reserve $000	Retained earnings $000	Total equity $000
As at 1 January 2016 Restated	1,794	167,437	–	–	129,283	43	(239,512)	59,045
Profit for the year	–	–	–	–	–	–	7,187	7,187
Other comprehensive loss	–	–	–	(10,706)	–	–	–	(10,706)
Share options issued	–	–	–	–	–	22	–	22
Cumulative dividends not paid	–	–	–	–	25,215	–	(25,215)	–
At 31 December 2016 Restated	1,794	167,437	–	(10,706)	154,498	65	(257,540)	55,548
Profit for the year	–	–	–	–	–	–	258,998	258,998
Other comprehensive income/(loss)	–	–	(43,747)	8,287	–	–	–	(35,460)
Share options exercised	2	59	–	–	–	(65)	8	4
Cumulative dividends not paid	–	–	–	–	2,084	–	(2,084)	–
Cancellation of undeclared dividends	–	–	–	–	(156,582)	–	156,582	–
Cancellation of shares	(1,796)	–	–	–	–	–	(24,756)	(26,552)
Issue of new shares	22	67,918	–	–	–	–	(16)	67,924
Share issue expenses	–	(613)	–	–	–	–	–	(613)
At 31 December 2017	22	234,801	(43,747)	(2,419)	–	–	131,192	319,849

Company statement of changes in equity

	Share capital $000	Share premium $000	Currency translation reserve $000	Undeclared dividend reserve $000	Share option reserve $000	Retained earnings $000	Total equity $000
As at 1 January 2016 Restated	1,794	167,437	–	129,283	43	(44,151)	254,406
Profit for the year	–	–	–	–	–	22,960	22,960
Other comprehensive loss	–	–	(45,389)	–	–	–	(45,389)
Share options issued	–	–	–	–	22	–	22
Cumulative dividends not paid	–	–	–	25,215	–	(25,215)	–
At 31 December 2016 Restated	1,794	167,437	(45,389)	154,498	65	(46,406)	231,999
Profit for the year	–	–	–	–	–	8,831	8,831
Other comprehensive income	–	–	20,649	–	–	–	20,649
Share options exercised	2	59	–	–	(65)	8	4
Cumulative dividends not paid	–	–	–	2,084	–	(2,084)	–
Cancellation of undeclared dividends	–	–	–	(156,582)	–	156,582	–
Cancellation of shares	(1,796)	–	–	–	–	(24,756)	(26,552)
Issue of new shares	22	67,918	–	–	–	(16)	67,924
Share issue expenses	–	(613)	–	–	–	–	(613)
At 31 December 2017	22	234,801	(24,740)	–	–	92,159	302,242

Consolidated statement of cash flows

for the year ended 31 December	Note	2017 $000	2016 Restated $000
Net cash flows from operating activities	25	54,027	(10,658)
Cash flows from investing activities			
Expenditure on exploration and evaluation assets		(8,818)	(1,280)
Expenditure on property, plant and equipment		(26,715)	–
Expenditure on business combinations and acquisitions		(2,062,302)	–
Net cash flow from investing activities		(2,097,835)	(1,280)
Cash flows from financing activities			
Deferred equity injection		–	4,427
Proceeds from share issue		67,313	–
Proceeds from new borrowings	21	2,272,026	–
Interest received		260	19
Interest paid and bank charges		(29)	(1)
Net cash flow from financing activities		2,339,570	4,445
Net increase/(decrease) in cash and cash equivalents		295,762	(7,493)
Effect of exchange rates on cash and cash equivalents		(303)	1,407
Cash and cash equivalents at 1 January		4,082	10,168
Cash and cash equivalents as at 31 December	17	299,541	4,082

Company statement of cash flows

for the year ended 31 December	Note	2017 $000	2016 Restated $000
Net cash flows from operating activities	25	(6,034)	(2,988)
Cash flows from investing activities			
Expenditure on acquisition of subsidiary		(193,709)	–
Net advances to subsidiary undertakings		(566,252)	(28,805)
Net cash flow from investing activities		(759,961)	(28,805)
Cash flows from financing activities			
Proceeds of share issue		67,313	–
Proceeds of loan notes issue	21	694,780	–
Deferred equity injection		–	4,427
Interest received		129	23,187
Interest paid and bank charges		(4)	(1)
Net cash flow from financing activities		762,218	27,613
Net decrease in cash and cash equivalents		(3,777)	(4,180)
Effect of exchange rates on cash and cash equivalents		114	(40)
Cash and cash equivalents at 1 January		3,666	7,886
Cash and cash equivalents as at 31 December	17	3	3,666

Notes to the financial statements

for the year ended 31 December 2017

1. Corporate information

The consolidated financial statements of Chrysaor Holdings Limited (the Group) for the year ended 31 December 2017 which comprise the parent company, Chrysaor Holdings Limited (the Company) and all its subsidiaries, were authorised for issue in accordance with a resolution of the directors on 25 April 2018. Chrysaor Holdings Limited is a limited company incorporated in the Cayman Islands and domiciled in the United Kingdom.

The Group's and Company's principal activities are the acquisition, exploration, development and production of oil and gas reserves on the UK Continental Shelf (UKCS).

2. Accounting policies

Basis of preparation

The consolidated financial statements of the Company and Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are presented in US Dollars and all values are rounded to the nearest thousand dollars ($000) except when otherwise stated.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2017. Subsidiaries are those entities over which the Group has the right to exercise control over the operations and govern the financial policies.

All intercompany balances have been eliminated on consolidation.

Change in accounting policy – presentation currency

On the 31 January 2017, the Company announced its intention to acquire a package of assets in the UK North Sea from Shell U.K Limited and its affiliates ("Shell") for a price of $3.0 billion. Following completion of the transaction on 1 November 2017 the Group's cash flows became principally denominated in US Dollars. for the year ended 31 December 2017, the Group changed the currency in which it presents its consolidated and Company financial statements from Pounds Sterling to US Dollars.

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

- assets and liabilities denominated in non-US Dollar currencies were translated into US Dollars at the closing rates of exchange;
- non-USD trading results were translated into US Dollars at an annual average rate of exchange;
- exchange differences resulting from the retranslation of the opening net assets and the results for the year have been taken to the translation reserve within equity;
- share capital and reserves were translated into US Dollars at rates prevailing at the time of each transaction; and
- the cumulative translation reserve was set to nil at 1 January 2016.

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

US Dollar/Pounds Sterling exchange rate	2017	2016	2015
Closing rate	1.35	1.23	1.48
Annual average rate	1.30	1.35	–

In addition to the change in presentation currency, the acquisition of the UK North Sea assets on 1 November 2017 triggered a review of the functional currency of each Group entity. The review assessed the primary economic environment in which each entity operates by taking into consideration the currency of the main sources of income, expense, capital projects and sources of funding. The assessment determined that the functional currency of Chrysaor Holdings Limited and Chrysaor Limited (a UK exploration and production company) should change from Pounds Sterling to US Dollars as at 1 November 2017. The change in functional currencies of these entities has been accounted for prospectively from the date of the change.

Segment reporting

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

Joint arrangements

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

In relation to its interests in joint operations, the Group 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

Each entity in the Group determines its own functional currency, being the currency of the primary economic environment in which the entity operates, and items included in the financial statements of each entity are measured using that functional currency.

The consolidated financial statements are presented in US Dollars, which is also the Company's functional currency.

Transactions recorded in foreign currencies are initially recorded in the entity'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 profit and loss account, except when hedge accounting is applied. 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.

On consolidation, the assets and liabilities of the Group's operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average monthly exchange rates for the year. Equity is held at historic costs and are not retranslated. The resulting exchange differences are recognised as other comprehensive income or expense and are transferred to the Group's translation reserve.

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, subject to a maximum of one year.

Goodwill
In the event of a business combination or acquisition of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, the acquisition method of accounting is applied. Goodwill represents the difference between the aggregate of the fair value of purchase consideration transferred at the acquisition date and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment. Goodwill is treated as an asset of the relevant entity to which it relates and accordingly non-US Dollar goodwill is translated into US Dollars at the closing rate of exchange at each reporting date.

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

Intangible assets – exploration and evaluation assets
Exploration and evaluation expenditure is accounted for using the successful efforts method of accounting.

(a) Pre-license costs
Pre-licencing costs are expensed in the period 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 the 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 profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties within development and production assets.

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2017 continued

2. Accounting policies continued

Property, plant and equipment – Oil and gas development and production assets

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

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

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is provided using the unit of production method based on proven and probable reserves. When there is a change in the estimated total recoverable proven and probable reserves of a field, that change is accounted for prospectively in the depreciation charge over the revised remaining proven and probable reserves.

An item of development and production expenditure and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included the profit and loss account.

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 Group, the expenditure is capitalised. All other day-to-day repairs and maintenance costs are expensed as incurred.

Other property, plant and equipment

Non-oil and gas property, plant and equipment is stated at cost less accumulated depreciation and impairment. Depreciation is provided for on a straight line basis at rates sufficient to write off the cost of the asset less any residual value over their estimated useful economic lives. The depreciation periods for the principal categories of assets are as follows:

Fixtures and fittings	Up to 10 years
Office furniture and equipment	Up to 5 years

Impairment of non-current assets (excluding goodwill)

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Group 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 profit and loss account as an impairment charge.

Financial Instruments

a. Financial Assets

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 profit and loss account.

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The losses arising from any impairment are recognised in operating expenses.

Cash and cash equivalents

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

b. Financial Liabilities

Borrowings and shareholder loan notes

Borrowings and shareholder loan notes are recognised initially at fair value plus directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

c. Derivative financial instruments

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

Cash flow hedges

The effective portion of gains and losses arising from the re-measurement of derivative financial instruments designated as cash flow hedges are deferred within other comprehensive income and subsequently transferred to profit or loss in the period the hedged transaction is recognised in the profit and loss account. When a hedging instrument is sold or expires, any cumulative gain or loss previously recognised in other comprehensive income remains deferred until the hedged item affects profit or loss or is no longer expected to occur. Any gain or loss relating to the ineffective portion of a cash flow hedge is immediately recognised in profit or loss.

d. Fair Values

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

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

Equity

Share capital
Share capital includes the total net proceeds, both nominal and share premium, on the issue of ordinary and preference shares of the Company. The Group's redeemable preference shares were accounted for as an equity instrument until their conversion to C loan notes during the year (note 21).

Currency translation reserve
This reserve comprises exchange differences arising on consolidation of the Group's operations with a functional currency other than the USD.

Undeclared dividend reserve
This reserve represents accrued but undeclared dividends on the Company's 10% cumulative preference shares. The reserve was cancelled on the redemption of the preference shares and subsequent exchange into C loan notes during the year.

Share option reserve
This reserve represents accrued but unexercised share options granted by the Company.

Inventories
Hydrocarbon inventories are stated at net realisable value with movements recognised in the profit and loss account. All other inventories are stated at the lower of cost and net realisable value. The cost of materials is the purchase cost, determined on first-in, first-out basis.

Leasing commitments
Assets held under finance leases are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the assets' useful lives. The capital elements of future obligations under finance leases are included as liabilities in the balance sheet. The interest element of the rental obligations are charged in the profit and loss account over the period of the lease and represent a constant proportion of the balance of the capital repayments outstanding.

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

Provisions for liabilities
A provision is recognised when the Group 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 profit or loss 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 profit or loss.

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 Group 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 profit or loss.

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 reporting date. The carrying amount of the deferred income tax asset is reviewed at each reporting 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 Group to make a single net payment.

Revenue
Oil, gas and condensate revenues associated with the sale of the Group's crude oil and natural gas are recognised when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenues from the production of oil and natural gas properties in which the Group has an interest with partners are recognised based on the Group's working interest in those properties (the entitlement method). Differences between the production sold and the Group's share of production are recognised within cost of sales at market value.

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

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

Notes to the financial statements

for the year ended 31 December 2017 continued

2. Accounting policies continued

New accounting standards and interpretations

The Group adopted new and revised accounting standards and interpretations relevant to its business and effective for accounting periods beginning on or after 1 January 2017. There were no significant effects from the adoption of these standards and interpretations.

Accounting standards issued but not yet effective

Accounting standards issued and relevant to the Group, but not yet effective, are listed below. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

This standard replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement. It introduces new requirements for the classification and measurement of financial assets and liabilities and hedge accounting. It also includes new financial asset impairment requirements based on an expected credit losses model that replaces the existing current incurred loss model. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group has considered the financial instruments and hedge accounting practices in effect at the reporting date and expect the adoption of IFRS 9 will not have a significant impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a structured five-step approach to the identification of customers and the measurement and recognition of associated revenues. In particular, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 also introduces additional disclosure requirements, mainly relating to outstanding performance obligations under long-term arrangements. The new revenue standard is effective for annual periods beginning on or after 1 January 2018 and will supersede all current revenue recognition requirements under IFRS. The Group's revenue streams are relatively straightforward and while the adoption of IFRS 15 is not expected to have a significant impact on current revenue recognition practices, work is ongoing reviewing the contractual arrangements associated with the newly acquired operations to conclude upon the impact.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement and presentation of leases, replacing the previous lease standard IAS 17 Leases. Under the previous standard, lessees were required to distinguish between an on-balance sheet finance lease and an off-balance sheet operating lease. IFRS 16 requires the future lease payments associated with virtually all leases to be recognised as a liability on the balance sheet along with a corresponding "right-of-use" asset. There are exemptions for lessees regarding certain short-term and low-value leases. IFRS 16 is effective from 1 January 2019.

Following the acquisition of the package of UK North Sea assets that completed on 1 November 2017, the Group is still in the process of reviewing the newly acquired operations against the criteria of IFRS 16. Accordingly, the impact on the financial statements from adopting the new standard has yet to be reliably determined. It is expected this information will be disclosed in the financial statements for the year ended 31 December 2018.

Significant accounting judgements

The preparation of the Group's and Company's financial statements in conformity with IFRS 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 Group has identified the following areas where significant judgement, estimates and assumptions are required.

Exploration and evaluation expenditure

As at 31 December 2017, the Group held a balance of $35.5 million (2016: $7.3 million) relating to expenditure on unproved hydrocarbon resources within other intangible assets. The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of commercial 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 profit or loss in the period when the new information becomes available.

Key sources of estimation uncertainty

Oil and gas reserves

Significant estimates and determinations are required when assessing the economically recoverable reserves of an oil and gas field. Such estimates are impacted by a number of factors, including commodity prices, future capital expenditure and the available reservoir data. The estimation of oil and gas reserves affects the calculation of depreciation, the recoverable amount of assets for the purpose of impairment testing and the anticipated date of decommissioning. The Group estimates that a 5% reduction in the estimation of proved and probable reserves throughout the period following the acquisition of the E&P asset portfolio on 1 November 2017 would have increased the depreciation charge by $5.2 million.

Recoverability of oil and gas assets

The Group assesses each asset or cash generating unit each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value in use (VIU). The assessments of VIU require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserve profiles and operating performance.

Decommissioning costs
Decommissioning costs will be incurred by the Group at the end of the operating life of most of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including the expected timing, extent and amount of expenditure. On the basis that all other assumptions in the calculation remain the same a 10% increase in the cost estimates used to assess the final decommissioning obligation would result in an increase to the decommissioning provision of circa $245 million. This change would be principally offset by a change to the value of the associated asset.

Recovery of deferred tax assets
Judgement is required to determine whether deferred tax assets are recognised in the balance sheet. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable income are based on forecasted cash flows from operations and judgement about the application of existing tax laws. As at 31 December 2016, the Group had unutilised losses of $1,074 million for which no associated deferred tax was recognised. Following completion of the transaction with Shell in 2017, the foreseeable future taxable profits of the Group increased sufficiently to allow the previously unrecognised deferred tax associated with these losses to be recognised in full.

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

3. Segment information

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the segment has been identified as the Chief Executive Officer.

The Group's activities consist of one class of business being the acquisition, exploration, development and production of oil and gas reserves and related activities in a single geographical area presently being the UK North Sea. This is considered to be the only reportable segment of the Group. All revenues, expenses, corporate activities and non-current assets are attributable to the UK and can be assigned to this reportable segment, accordingly no additional segment analysis is disclosed.

Information on major customers can be found in note 4.

4. Revenue

Group	2017 $000	2016 $000
Crude oil sales	203,551	–
Gas sales	86,016	–
Condensate sales	23,933	–
Total revenue	313,500	–

The revenues for 2017 reflect the two months of oil and gas production following the acquisition described in note 14. Approximately 95% of the revenues were attributable to energy trading companies of the Shell group.

Company	2017 $000	2016 $000
Provision of management services	–	4,843
Total revenue	–	4,843

Notes to the financial statements

for the year ended 31 December 2017 continued

5. Operating profit/(loss)

This is stated after charging/(crediting):

Group	2017 $000	2016 $000
Movement in over/under-lift balances and hydrocarbon inventories	4,799	–
Production, insurance and transportation costs	85,771	–
Depreciation of property, plant and equipment	100,241	180
Amortisation of intangible assets	606	–
Employee costs	22,359	3,952
Exploration and evaluation expenditure	11,323	7,142
Unsuccessful exploration	7,276	3,081
Re-measurement of royalty valuation	9,171	(7,753)
Re-measurement of contingent consideration on acquisition of UKNS portfolio	21,033	–
Auditors' remuneration – audit of the financial statements	557	80
– other fees to auditors – taxation services	340	381
– other fees to auditors – transaction services	1,684	–
Operating lease payments	135	505

During 2015, the Group sold its entire interest in a pre-production development. Part of the consideration received was a beneficial interest in a royalty agreement. The re-measurement of this interest represents the updated valuation of the contingent consideration in respect of the royalty payments due to the Group (note 22).

During 2017, the Group acquired a package of assets in the UK North Sea from Shell. The transaction includes provisions for additional payments to the sellers of up to $600 million and consideration refundable from the sellers of up to $100 million, dependent on future commodity prices over the four year period ending 31 December 2021. These contingent payments and receipts represent derivative instruments, the re-measurement of which is recognised through the profit and loss account (note 14).

Company	2017 $000	2016 $000
Depreciation of property, plant and equipment	73	180
Employee costs	5,457	3,952
Auditors' remuneration – audit of the financial statements	27	33
– other fees to auditors – taxation services	–	7
Operating lease payments	100	505

6. Staff Costs

	Group 2017 $000	Group 2016 $000	Company 2017 $000	Company 2016 $000
Wages and salaries	18,837	3,502	4,765	3,502
Social security costs	1,711	450	613	450
Pension costs	1,276	–	66	–
Other staff costs including benefits	535	–	13	–
	22,359	3,952	5,457	3,952

The average number of persons employed during the year (including directors) was 88 for the Group and 21 for the Company (2016: 18 and 18, respectively). During the year, all employment contracts with the Company were transferred to a subsidiary of the Group.

All employees were engaged in the acquisition, exploration, development and production of oil and gas reserves. Following completion of the acquisition of North Sea assets from Shell on 1 November 2017, the number of persons employed by the Group increased significantly.

The Group commenced a defined contribution pension plan in the year and the amounts charged to the profit and loss account represent the contributions payable in the year. The Group did not operate a pension scheme in the previous year.

7. Finance income and Finance cost

Group	2017 $000	2016 $000
Finance income:		
Bank interest receivable	260	19
Foreign exchange gains	–	4,500
	260	4,519
Finance costs:		
Interest payable on Reserves Based Loan and junior facility	15,906	–
Interest payable on loan notes	15,199	–
Foreign exchange losses	915	–
Bank and financing fees	5,264	1
Unwinding of discount on decommissioning and other provisions	7,609	–
	44,893	1

Bank and financing fees includes an amount of $2.8 million relating to the amortisation of transaction costs capitalised against the Group's long-term borrowings (note 21).

Company	2017 $000	2016 $000
Finance income:		
Bank interest receivable	129	20
Interest receivable on loans with subsidiaries	23,916	23,167
Foreign exchange gains	5,206	1,013
	29,251	24,200
Finance costs:		
Interest payable on loan notes	15,199	–
Bank and financing fees	4	1
	15,203	1

Notes to the financial statements

for the year ended 31 December 2017 continued

8. Directors' remuneration

	2017 $000	2016 $000
Directors' remuneration	954	1,181
Pension costs	12	–
	966	1,181

The above amounts for remuneration includes the following in respect of the highest paid director:

	2017 $000	2016 $000
Directors' remuneration	528	409
Pension costs	6	–
	534	409

The directors did not receive any other remuneration.

9. Income Tax

(a) Group

The major components of income tax charge/ (credit) for the years ended 31 December 2017 and 2016 are:

	2017 $000	2016 $000
Current income tax charge/(credit):		
UK corporation tax	6,033	–
Total current income tax charge	6,033	–
Deferred tax charge/(credit):		
Origination and reversal of temporary differences	(264,560)	(6,697)
Impact of change in tax laws and rates	–	(1,041)
Total deferred tax credit	(264,560)	(7,738)
Tax credit in the profit and loss account	(258,527)	(7,738)
The tax credit in the profit and loss account is disclosed as follows:		
Income tax credit on continuing operations	(258,527)	(7,738)
	(258,527)	(7,738)

The origination of and reversal of temporary differences are, as shown in the next table, related primarily to movement in the carrying amounts and tax base values of expenditure and group losses for the current and prior year and the timing of when these items are charged and/or credited against accounting and taxable profit.

A reconciliation between total tax charge/(credit) and the accounting profit multiplied by the standard rate of corporation tax and supplementary charge applying to UK oil and gas production operations for the years ended 31 December 2017 and 2016 is as follows:

	2017 $000	2016 $000
Accounting profit/(loss) before income tax	471	(551)
Tax calculated at UK standard rate of corporation tax of		
40% (2016: 20%)	188	(110)
Effects of:		
Items not allowable for tax purposes	–	(3,066)
Expenses not deductible for tax purposes	16,989	–
Pre-trading expenditure not recognised	–	62
Prior year adjustment	–	20,103
Ring fence expenditure supplement	(44,119)	(24,770)
Movement in unrecognised deferred tax assets	(234,853)	–
Impact of Group relief surrendered at different tax rates	2,909	2,314
Capital allowances disposed	–	(1,232)
Changes in tax rates	(5)	1,343
Tax rate differences	(610)	–
Impact of losses relieved at different rates	–	(2,382)
Investment allowance	(395)	–
Currency translation adjustment	1,305	–
Other	64	–
Total tax credit reported in the consolidated profit and loss account	(258,527)	(7,738)

Deferred tax

Deferred tax is presented net on the group balance sheet is as follows:

	2017 $000	2016 $000
Deferred tax liability		
Accelerated capital allowances	(1,696,837)	(337)
	(1,696,837)	(337)
Deferred tax asset		
Decommissioning provisions	697,615	–
Fair value of derivatives designated as cash flow hedges	29,164	
Tax losses carried forward	595,452	21,918
	1,322,231	21,918
Disclosed on the balance sheet		
Deferred tax asset	–	21,581
Deferred tax liability	(374,606)	–
	(374,606)	21,581

Notes to the financial statements

for the year ended 31 December 2017 continued

9. Income Tax continued

Deferred tax in the profit and loss account

	2017 $000	2016 $000
Accelerated capital allowances	314,230	(3,185)
Decommissioning provisions	(5,015)	
Tax losses carried forward	(573,775)	(4,553)
Deferred tax credit	(264,560)	(7,738)

Deferred tax assets are recognised to the extent that the future benefit from the underlying tax losses carried forward is probable. Relevant tax law is considered as to the availability of the tax losses to offset future income. To determine the future taxable income from which the losses may be deducted, reference was made to the profit forecasts for the Group as at 31 December 2017. These profit forecasts showed sufficient future taxable income to recognise the deferred tax asset.

Tax losses

As at 31 December 2016, the Group had unutilised losses of $1,074 million for which no associated deferred tax was recognised. Following completion of the transaction with Shell in 2017, the foreseeable future taxable profits of the Group increased sufficiently to allow the previously unrecognised deferred tax associated with these losses to be recognised in full.

(b) Company

The major components of the Company's income tax charge/(credit) for the years ended 31 December 2017 and 2016 are:

	2017 $000	2016 $000
Current income tax charge/(credit):		
UK corporation tax	–	–
Total current income tax charge	–	–
Deferred tax charge/(credit):		
Origination and reversal of temporary differences	(3)	–
Total deferred tax credit	(3)	–
Tax credit in the profit and loss account	(3)	–
The tax credit in the profit and loss account is disclosed as follows:		
Income tax credit on continuing operations	(3)	–
	(3)	–

A reconciliation between total tax charge/(credit) and the accounting profit multiplied by the standard rate of corporation tax for the years ended 31 December 2017 and 2016 is as follows:

	2017 $000	2016 $000
Accounting profit/(loss) before income tax	8,828	22,962
Tax calculated at UK standard rate of corporation tax of 19.25% (2016: 20%)	1,699	4,592
Effects of:		
Expenses not deductible for tax purposes	1,969	37
Group relief claimed	(3,682)	(4,629)
Other	11	–
Total tax credit reported in the profit and loss account	(3)	–

Deferred tax included is presented net on the Company balance sheet is as follows:

	2017 $000	2016 $000
Deferred tax asset		
Accelerated capital allowances	3	–
	3	–

10. Goodwill

Group	$000
Cost:	
At 1 January 2017	–
Additions	498,978
Currency translation adjustment	1,102
At 31 December 2017	500,080

The goodwill balance arose on the acquisition of UK North Sea assets from Shell which completed on 1 November 2017 (note 14). The acquisition accounting, which determined the fair values of the net assets acquired, was completed sufficiently close to the reporting date to conclude there has been no significant decrease in the recoverable amount of the cash generating units associated with the goodwill in the two months following the acquisition. The goodwill will be reviewed for impairment prospectively at each reporting date, or earlier if there are indicators of impairment.

11. Other intangible assets

Group	Oil and gas assets $000	Capacity rights $000	Total $000
Cost:			
At 1 January 2017	7,280	–	7,280
Additions	8,818	–	8,818
Additions from business combinations and joint arrangements (note 14)	25,935	10,029	35,964
Unsuccessful exploration written-off	(7,276)	–	(7,276)
Currency translation adjustment	776	419	1,195
At 31 December 2017	35,533	10,448	45,981
Amortisation:			
At 1 January 2017	–	–	–
Charge for the year	–	606	606
At 31 December 2017	–	606	606
Net book value:			
At 31 December 2017	35,533	9,842	45,375
At 31 December 2016	7,280	–	7,280

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

The capacity rights represent NTS entry capacity at Bacton and Teesside acquired as part of the business combination completed in the year. These rights have a remaining useful life of 5 years and are amortised on a contractual volume basis.

Notes to the financial statements

for the year ended 31 December 2017 continued

12. Property, plant and equipment

Group	Oil and gas assets $000	Fixtures and fittings and office equipment $000	Total $000
Cost:			
At 1 January 2017	–	609	609
Additions	35,494	22,353	57,847
Additions from business combinations and joint arrangements	4,280,359	–	4,280,359
Currency translation adjustment	10,783	675	11,458
At 31 December 2017	4,326,636	23,637	4,350,273
Depreciation:			
At 1 January 2017	–	539	539
Charge for the year	98,971	1,270	100,241
Currency translation adjustment	(12)	66	54
At 31 December 2017	98,959	1,875	100,834
Net book value:			
At 31 December 2017	4,227,677	21,762	4,249,439
At 31 December 2016	–	70	70

Additions to oil and gas assets during year include $6.5 million from changes in decommissioning obligations (note 20). Further information on additions from business combinations and joint arrangements can be found in note 14.

Company	Fixtures and fittings and office equipment $000	Total $000
Cost:		
At 1 January 2017	609	609
Currency translation adjustment	49	49
At 31 December 2017	658	658
Depreciation:		
At 1 January 2017	539	539
Charge for the year	73	73
Currency translation adjustment	46	46
At 31 December 2017	658	658
Net book value:		
At 31 December 2017	–	–
At 31 December 2016	70	70

13. Investments

Company	Investment in subsidiaries Equity $000	Loans $000	Total $000
At 1 January 2017			
Additions	–	229,652	229,652
Disposals	193,709	839,154	1,032,863
Currency translation adjustment	(193,709)	–	(193,709)
At 31 December 2017	–	25,224	25,224
	–	1,094,030	1,094,030

On 1 November 2017 the Company acquired 100% of the issued share capital of BG International (CNS) Limited from Shell for cash consideration of $193.7 million (note 14). The Company subsequently passed down its interest in BG International (CNS) Limited for book value to its direct subsidiary, Chrysaor E&P Limited, in exchange for a loan receivable.

The Company also holds net investments in its subsidiary undertakings in the form of loan arrangements. At 31 December 2017, the Company had invested $885.2 million (2016: $216.0 million) in Chrysaor Limited, $193.7 million in Chrysaor E&P Limited (2016: $nil) and $15.1 million (2016: $13.7 million) in Chrysaor CNS Limited. From 1 November 2017, all loans are non-interest bearing and the Company has confirmed that it has no current intention to call on the loans until at least 12 months from the date of the approval of these financial statements. Up until 1 November 2017 the loan arrangement between the Company and Chrysaor Limited earned interest at a fixed rate of 10.5% per annum.

At 31 December 2017, the principal subsidiary undertakings of the Company which were all wholly owned were:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Main activity
Chrysaor E&P Limited	UK	100%	100%	Holding company
Chrysaor E&P Finance Limited	UK	100%	100%	Financing company
Chrysaor E&P Services Limited	UK	100%	100%	Service company
Chrysaor North Sea Limited*	UK	100%	100%	Oil and gas
Chrysaor Limited	UK	100%	100%	Oil and gas
Chrysaor CNS Limited	UK	100%	100%	Oil and gas

*Formerly BG International (CNS) Limited

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14. Business combinations and acquisition of interests in joint arrangements

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

The transaction completed on 1 November 2017 and comprised the direct acquisition of interests in certain joint operations and the acquisition of 100% of the issued share capital of the former Shell entity, BG International (CNS) Limited. The fair values of the net identifiable assets acquired from the transaction are as follows:

	Joint operations $000	BGI CNS Limited $000	Total $000
Exploration, evaluation and other intangible assets	25,935	10,029	35,964
Property, plant and equipment – oil and gas assets	3,688,543	591,816	4,280,359
Inventories	100,951	22,996	123,947
Trade and other receivables	36,685	30,930	67,615
Trade and other payables	(138,289)	(45,510)	(183,799)
Deferred tax	(614,031)	(76,272)	(690,303)
Provision for decommissioning	(1,313,400)	(418,100)	(1,731,500)
Fair value of identifiable net assets acquired	1,786,394	115,889	1,902,283
Cash consideration	1,968,593	193,709	2,162,302
Deferred consideration	213,612	–	213,612
Contingent consideration	25,347	–	25,347
Total consideration transferred	2,207,552	193,709	2,401,261
Goodwill recognised	421,158	77,820	498,978

Acquisition related costs of $5.5 million were incurred during the year and recognised as an expense within operating costs.

The cash consideration includes a $100 million advance by a private equity investor of the Company on behalf of the Group, the amount was subsequently settled with the shareholder by the issuance of loan notes (note 21). The deferred consideration represents $215 million payable to the seller no later than six months following the acquisition date and has been included in the consideration transferred at a discounted value.

The transaction includes provisions for additional payments to the sellers of up to $600 million and refundable from the sellers of up to $100 million, dependent on future commodity prices over the four year period ended 31 December 2021. These contingent payments and receipts represent derivative instruments. The contingent consideration transferred includes an amount of $17.6 million, representing an estimate of the fair value of these derivative instruments at the acquisition date. The contingent consideration also includes an amount of $7.7 million, representing the estimated fair value of additional payments to the sellers which are dependent upon future exploration results. Contingent consideration balances are assessed at each reporting date with any change in the valuation reported through the profit and loss account.

Goodwill of $499 million was recognised on the acquisition, representing the excess of the total consideration transferred over the fair value of the net assets acquired. The fair values for the oil and gas assets recognised as property, plant and equipment was determined by reference to commodity forward price curves for the first three years following the acquisition date and, for subsequent years, based on a market consensus. None of the goodwill is expected to be deductible for corporation tax.

The consolidated results of the Group include revenue of $313.5 million and an estimated operating profit of $50 million attributable to the acquired businesses. Prior to the acquisition, the Group had no revenues. The acquisition completed close to the reporting date and the historic data available to the Group as at the date of this report means it has not been practicable to determine a reliable estimate of what the results of the Group would have been had the acquisition occurred at the beginning of the accounting period.

15. Inventories

Group	2017 $000	2016 $000
Hydrocarbons	18,295	–
Consumables and subsea supplies	73,268	–
	91,563	–

Hydrocarbon inventories are measured at net realisable value.

16. Trade and other receivables

Group	2017 $000	2016 $000
Trade debtors	159,637	293
Under-lift position	60,735	–
Other debtors	23,190	2,460
Prepayments and accrued income	14,937	878
	258,499	3,631

Trade receivables are non-interest bearing and are generally on 20 to 30 days' terms. As at 31 December 2017, there were no trade receivables that were past due. (2016: $nil).

Company	2017 $000	2016 $000
Amounts owed by group undertakings	45,594	–
Other debtors	484	3,046
Prepayments and accrued income	581	347
	46,659	3,393

Amount owed by group undertakings are unsecured, non-interest bearing and repayable on demand.

17. Cash and cash equivalents

Group	2017 $000	2016 $000
Cash at bank and in hand	299,541	4,082
	299,541	4,082

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

Company	2017 $000	2016 $000
Cash at bank and in hand	3	3,666
	3	3,666

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for the year ended 31 December 2017 continued

18. Commitments

Operating lease commitments

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

Group	2017 $000	2016 $000
Not later than one year	474	76
After one year but not more than five years	9,797	2,235
	10,271	2,311

Company	2017 $000	2016 $000
Not later than one year	474	76
After one year but not more than five years	1,746	2,235
	2,220	2,311

Capital commitments

As at 31 December 2017, the Group had commitments for future capital expenditure amounting to $344.9 million (2016 $nil). Where the commitment relates to a joint arrangement, the amount represents the Group's net share of the commitment. Where the Group is not the operator of the joint arrangement then the amounts are based on the Group's net share of committed future work programmes.

As at 31 December 2017, there were no commitments for future capital expenditure in the Company (2016 $nil).

19. Trade and other payables

Group	2017 $000	2016 $000
Trade payables	27,810	968
Over-lift position	47,180	–
Deferred consideration	214,075	–
Other payables	7,792	159
Accruals and deferred income	181,635	2,490
Corporation tax payable	1,028	–
Deferred equity injection	–	4,021
	479,520	7,638

The deferred consideration of $214.1 million represents the present value of deferred consideration payable to Shell as part of the acquisition of UK North Sea assets described in note 14. The amount is payable no later than 30 April 2018.

Company	2017 $000	2016 $000
Trade payables	55	348
Amount owed to group undertakings	306	–
Other payables	–	160
Accruals and deferred income	–	253
Deferred equity injection	–	4,021
	361	4,782

The deferred equity injection related to cash received from the Company's private equity investors in advance of the acquisition described in note 14. The amounts represented funding provided during the due diligence and negotiations phases and was converted to unsecured D loan notes in 2017 (note 21).

20. Provisions

	Decommissioning provision $000	Other $000	Total $000
At 1 January 2017	–	–	–
Additions from business combinations and joint arrangements (note 14)	1,731,500	7,760	1,739,260
Additions	6,522	–	6,522
Amounts used	(1,124)	–	(1,124)
Unwinding of discount	7,146	–	7,146
Currency translation adjustment	6,908	–	6,908
At 31 December 2017	1,750,952	7,760	1,758,712

The Group 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 Group currently expects to incur decommissioning costs over the next 25 years. Approximately half of the costs currently provided for are anticipated to be incurred between 5 to 15 years. Decommissioning provisions are discounted at a risk free rate of 2.5% and the unwinding of the discount is presented within finance costs.

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

21. Borrowings and facilities

The Group's borrowings are carried at amortised cost and denominated in US Dollars.

Non-current	Group 2017 $000	Group 2016 $000	Company 2017 $000	Company 2016 $000
Reserves Based Loan facility	1,183,915	–	–	–
Junior facility	392,326	–	–	–
10% Unsecured C loan notes 2027	28,985	–	28,985	–
10% Unsecured D loan notes 2027	233,124	–	233,124	–
10% Unsecured E loan notes 2029	575,983	–	575,983	–
	2,414,333	–	838,092	–

During 2017, the Group entered into a number of borrowing arrangements and facilities to fund the acquisition of the UK North Sea assets discussed in note 14. The primary arrangement is a Reserves Based Loan (RBL) facility of $1,500 million. This is a six year facility with a consortium consisting of 17 banks and is secured by a pledge over the Group's oil and gas interests in the North Sea. The amount available under the facility is determined semi-annually based on a valuation of the Group's borrowing base assets under certain forward looking assumptions. There is also an uncommitted accordion option of $500 million that, with consent from the lenders and subject to certain conditions, can be added to the facility. The facility carries interest of 6 month USD Libor plus a margin of 4%, rising to a margin of 4.5% after 4 years. Certain fees are also payable including a 1.6% fee on available commitments and a 2% commission on letters of credit issued.

The junior facility of $400 million carries interest at 6 month USD Libor plus a margin of 7% and is repayable in instalments between 2019 and 2023.

Incremental transaction costs of $53.6 million and $8 million were incorporated into the initial carrying amount of the RBL and junior facilities respectively and will be amortised over the term of the relevant arrangement. As at 31 December 2017, the junior facility was fully drawn and $95 million remained available for drawdown under the RBL facility.

During the year, a series of unsecured loan notes with a combined principal value of $822.9 million were issued to the Company's private equity investors and certain members of key management (note 26). C loan notes with a principal value of $26.6 million were issued in exchange for C preference shares redeemed by the Company in the year. D loan notes with a principal value of $101.5 million were issued to settle cash advances borne by the private equity investors funding the acquisition described in note 14. The remaining loan notes were issued at par for cash consideration totalling $694.8 million.

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for the year ended 31 December 2017 continued

21. Borrowings and facilities continued

The loan notes incur interest of 10% per annum which, at the election of the Company, is capitalised and added to the principal amount each 31 December. The C loan notes and D loan notes rank junior to any senior bank debt and the E loan notes rank pari passu with the ordinary shares of the Company. None of the loan notes carry voting rights.

In December 2017, the loan notes were listed on The International Stock Exchange (formerly the Channel Islands Securities Exchange).

The table below details the change in the carrying amount of the Group's borrowings arising from financing cash flows.

	Group $000	Company $000
Total borrowings as at 1 January 2017	–	–
Gross cash inflow from Reserves Based Loan and junior facility	1,635,000	–
Transaction costs paid and capitalised	(57,754)	–
Cash inflow from issue of loan notes	694,780	694,780
Net cash inflow from borrowings	2,272,026	694,780
Loan notes issued for non-cash consideration	128,113	128,113
Loan notes interest capitalised	15,199	15,199
Accrued transaction costs capitalised	(1,500)	–
Amortisation of transaction costs	2,820	–
Currency translation adjustments	(2,325)	–
Total borrowings as at 31 December 2017	2,414,333	838,092

22. Other financial assets and liabilities

	2017		2016	
Group	Assets $000	Liabilities $000	Assets $000	Liabilities $000
Measured at fair value				
Royalty consideration	3,000	–	3,000	
Commodity derivatives – cash flow hedges	–	(24,090)	–	–
Commodity derivatives – contingent consideration	–	(18,320)	–	–
Total current	3,000	(42,410)	3,000	–
Measured at fair value				
Royalty consideration	11,373	–	23,542	–
Commodity derivatives – cash flow hedges	3,300	(52,440)	–	–
Commodity derivatives – contingent consideration	–	(20,300)	–	–
Total non-current	14,673	(72,740)	23,542	–
Total current and non–current	17,673	(115,150)	26,542	–

Fair value measurements
All financial instruments that are initially recognised and subsequently re-measured at fair value have been classified in accordance with the hierarchy described in IFRS 13 "Fair Value Measurement". The hierarchy groups fair value measurements into the following levels based on the degree to which the fair value is observable.

Level 1: fair value measurements are derived from unadjusted quoted prices for identical assets or liabilities.

Level 2: fair value measurements include inputs, other than quoted prices included within level 1, which are observable directly or indirectly.

Level 3: fair value measurements are derived from valuation techniques that include significant inputs not based on observable data.

	Financial assets		Financial liabilities	
Group	Level 2 $000	Level 3 $000	Level 2 $000	Level 3 $000
As at 31 December 2017				
Royalty valuation	–	14,373	–	–
Commodity derivatives – cash flow hedges	3,300	–	(76,530)	–
Commodity derivatives – contingent consideration	–	–	–	(38,620)
	3,300	14,373	(76,530)	(38,620)

	Financial assets		Financial liabilities	
Group	Level 2 $000	Level 3 $000	Level 2 $000	Level 3 $000
As at 31 December 2016				
Royalty valuation	–	–	–	26,542
	–	–	–	26,542

There were no transfers between fair value levels in the year. The movements in the year associated with financial assets and liabilities measured in accordance with level 3 of the fair value hierarchy are shown below:

	Financial assets		Financial liabilities	
Group	2017 $000	2016 $000	2017 $000	2016 $000
Fair value as at 1 January	26,542	22,506	–	–
Additions	–	–	(17,587)	–
Settlements	(3,000)	(3,000)	–	
Gains and losses recognised in the profit and loss account	(9,171)	7,753	(21,033)	–
Currency translation adjustments	2	(717)	–	–
Fair value as at 31 December	14,373	26,542	(38,620)	–

Part of the consideration received on the sale of the Group's interest in a pre-production development in 2015 was a royalty interest, which is recognised on the balance sheet as a financial asset. At 31 December 2017, the Group valued the outstanding consideration receivable at $14.4 million (2016: $26.5 million) of which $3.0 million (2016: $3.0 million) is considered to be receivable within one year.

The agreement with the sellers of the UK North Sea assets purchased by the Group in the year includes contingent consideration dependent on future commodity prices over the four year period ended 31 December 2021. These contingent payments and receipts represent a series of option contracts. The fair value of the contingent payments are presented as a financial liability and estimated using valuation techniques, the key inputs for which include future commodity prices and volatility.

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22. Other financial assets and liabilities continued

Fair value movements recognised in the profit and loss account on financial instruments are shown below.

Group	2017 $000	2016 $000
Income/(expense) included in the profit and loss account		
Ineffectiveness on cash flow hedges	(332)	–
Re-measurement of royalty valuation	(9,171)	7,753
Re-measurement of contingent consideration – commodity derivatives	(21,033)	–
	(30,536)	7,753

Fair values of other financial instruments

The following financial instruments are measured at amortised cost and are considered to have fair values different to their book values.

	2017		2016	
Group and Company	Book value $000	Fair value $000	Book value $000	Fair value $000
Long-term borrowings – loan notes	(838,092)	(870,925)	–	–

The fair values of the loan notes are within level 2 of the fair value hierarchy and have been estimated by discounting all future cash flows by the relevant market yield curve at the balance sheet date adjusted for an appropriate credit margin. The fair values of other financial instruments not measured at fair value including cash and short-term deposits, trade receivables, trade payables and floating rate borrowings approximate their carrying amounts.

Cash flow hedge accounting

The Group uses a combination of fixed price physical sales contracts and cash-settled fixed price commodity swaps to manage the price risk associated with its underlying oil and gas revenues. As at 31 December 2017, all of the Group's cash-settled fixed price commodity swap derivatives have been designated as cash flow hedges of highly probable forecast sales of oil and gas. The Group did not use commodity derivatives for the year ended 31 December 2016.

The following table indicates the volumes, average hedged price and timings associated with Group's financial commodity derivatives. Volumes hedged through fixed price contracts with customers for physical delivery are excluded.

Group

Position as at 31 December 2017	2018	2019	2020
Oil volume hedged (thousand bbls)	4,380	4,745	3,111
Weighted average hedged price ($/bbl)	59.25	56.32	55.15
Gas volume hedged (million therms)	–	207	434
Weighted average hedged price (p/therm)	–	0.48	0.44

As at 31 December 2017, the fair value of financial commodity derivatives designated as cash flow hedges was $(73.2) million (2016: $nil) and unrealised pre-tax losses of $72.9 million (2016: $nil) was deferred in other comprehensive income in respect of the effective portion of the hedge relationships. Amounts deferred in other comprehensive income will be released to the profit and loss account as the underlying hedged transactions occur. As at 31 December 2017, deferred pre-tax losses of $24.1 million (2016: $nil) are expected to be released to the profit and loss account within one year.

23. Financial risk factors and risk management

The Group's principal financial assets and liabilities comprise trade and other receivables, cash and short-term deposits accounts, trade payables, interest bearing loans and derivative financial instruments. The main purpose of these financial instruments is to manage short-term cash flow and price exposures and raise finance for the Group's expenditure programme. Further information on the Group's financial instrument risk management objectives, policies and strategies are set out in the discussion of capital management policies in the Strategic Report.

Risk exposures and responses

The Group manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security. The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are: market risks comprising commodity price risk, interest rate risk and foreign currency risk; liquidity risk; and credit risk. Management reviews and agreed policies for managing each of these risks that are summarised below.

The Group's senior management oversees the management of financial risks. The Group's senior management ensures that financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and risk objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commodity price risk, interest rate risk and foreign currency risk. Financial instruments mainly affected by market risk include loans and borrowings, deposits and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December 2017 and 2016.

The sensitivity analyses have been prepared on the basis that the amount of financial instruments are all constant. The sensitivity analyses are intended to illustrate the sensitivity to changes in market variables on the composition of the Group's financial instruments at the balance sheet date and show the impact on profit or loss and shareholders' equity, where applicable.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant profit before tax item and/or equity is the effect of the assumed changes in respective market risks for the full year based on the financial assets and financial liabilities held at the balance sheet date.
- The sensitivities indicate the effect of a reasonable increase in each market variable. Unless otherwise stated, the effect of a corresponding decrease in these variables is considered approximately equal and opposite.
- Fair value changes from derivative instruments designated as cash flow hedges are considered fully effective and recorded in shareholders' equity, net of tax.

  Fair value changes from derivatives and other financial instruments not designated as cash flow hedges are presented as a sensitivity to profit before tax only and not included in shareholders' equity.

a. Commodity price risk
The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of oil and gas products. On a rolling basis, the Group's policy is to hedge the commodity price exposure associated with 50% to 70% of the next 12 months production, between 40% and 60% in the following 12 month period, between 30 and 50% in the subsequent 12 month period and up to 40% in the subsequent 12 month period. The Group manages these risks through the use of fixed priced contracts with customers for physical delivery and derivative financial instruments including fixed priced swaps and options.

The following table summarises the impact on the Group's pre-tax profit and equity from a reasonably foreseeable movement in commodity prices on the fair value of commodity based derivative instruments held by the Group at the balance sheet date. There were no derivative financial instruments held by the Company in the current year or the Company and Group in the previous year.

Group	Market movement	Effect on profit before tax $000	Effect on equity $000
2017			
Brent oil price	USD10/bbl increase	(67,153)	(73,416)
Brent oil price	USD10/bbl decrease	50,968	73,416
NBP gas price	GBP 0.1/therm increase	–	(38,430)
NBP gas price	GBP 0.1/therm decrease	–	38,430

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23. Financial risk factors and risk management continued

b. Interest rate risk

Floating rate borrowings comprise bank loans under the RBL and junior facilities which incur interest fixed six months in advance at USD Libor plus a margin of 4% to 7%. Fixed rate borrowings comprises a series of shareholder loan notes which incur interest at 10% per annum. At the option of the Company, interest on the shareholder loan notes can be capitalised into the principal amount and settled at maturity. Floating rate financial assets comprise cash and cash equivalents which earn interest at the relevant market rate. The Group monitors its exposure to fluctuations in interest rates and may use interest rate derivatives to manage the fixed and floating composition of its borrowings. As at 31 December 2017, the Group had not entered into any interest rate derivatives. The interest rate and currency profile of the Group's interest bearing financial assets and liabilities is shown below.

Group	Cash at bank $000	Fixed rate borrowings $000	Floating rate borrowings $000	Total $000
As at 31 December 2017				
US Dollars	279,250	(838,092)	(1,576,241)	(2,135,083)
Pound Sterling	20,288	–	–	20,288
Other	3	–	–	3
	299,541	(838,092)	(1,576,241)	2,114,792

Company	Cash at bank $000	Fixed rate borrowings $000	Floating rate borrowings $000	Total $000
As at 31 December 2017				
US Dollars	2	(838,092)	–	(838,090)
Pound Sterling	1	–	–	1
	3	(838,092)	–	(838,089)

Group	Cash at bank $000	Fixed rate borrowings $000	Floating rate borrowings $000	Total $000
As at 31 December 2016				
US Dollars	2,778	–	–	2,778
Pound Sterling	1,304	–	–	1,304
Other	–	–	–	–
	4,082	–	–	4,082

Company	Cash at bank $000	Fixed rate borrowings $000	Floating rate borrowings $000	Total $000
As at 31 December 2016				
US Dollars	2,502	–	–	2,502
Pound Sterling	1,164	–	–	1,164
	3,666	–	–	3,666

The following table illustrates the indicative pre-tax effect on profit and equity of applying a reasonably foreseeable increase in interest rates to the Group's financial assets and liabilities at the balance sheet date. The Company had no significant floating rate asset or liabilities in the current or previous year.

Group	Market movement	Effect on profit before tax $000	Effect on equity $000
2017			
US interest rates	+100 basis points	(13,355)	–
2016			
US interest rates	+100 basis points	–	–

Foreign currency risk
The Group is exposed to foreign currency risk primarily arising from exchange rate movements in US Dollar against Pounds Sterling. To mitigate exposure to movements in exchange rates, wherever possible financial assets and liabilities are held in currencies that match the functional currency of the relevant entity. The Group has subsidiaries with functional currencies of Pounds Sterling and US Dollar. Exposures can also arise from sales or purchases denominated in currencies other than the functional currency of the relevant entity, such exposures are monitored and hedged with agreement from the Board. As at 31 December 2017, the Group had not entered into any exchange rate derivatives.

The following table demonstrates the sensitivity to a reasonably foreseeable change in US Dollar against Pounds Sterling with all other variables held constant, of the Group's profit before tax (due to foreign exchange translation of monetary assets and liabilities). The impact of translating the net assets of foreign operations into US Dollars is excluded from the sensitivity analysis.

Group	Market movement	Effect on profit before tax $000	Effect on equity $000
2017			
US dollar/Sterling	10% strengthening	(5,542)	–
US dollar/Sterling	10% weakening	4,667	–
2016			
US dollar/Sterling	10% strengthening	(2,666)	–
US dollar/Sterling	10% weakening	3,257	–

Company	Market movement	Effect on profit before tax $000	Effect on equity $000
2017			
US dollar/Sterling	10% strengthening	31,982	–
US dollar/Sterling	10% weakening	(31,982)	–
2016			
US dollar/Sterling	10% strengthening	(228)	–
US dollar/Sterling	10% weakening	278	–

Credit risk
There are no significant concentrations of credit risk within the Group unless otherwise disclosed. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

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23. Financial risk factors and risk management continued

Liquidity risk

The Group monitors the amount of borrowings maturing within any specific period and proposes to meet its financing commitments from the operating cash flows of the business and existing committed lines of credit.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted payments.

Group	Within one year $000	1 to 2 years $000	2 to 5 years $000	Over 5 years $000	Total $000
As at 31 December 2017					
Non-derivative Financial Liabilities					
Reserves Based Loan facility	133,998	523,827	774,247	–	1,432,072
Junior facility	17,594	124,864	333,411	50,427	526,296
Loan notes	–	–	–	2,446,204	2,446,204
Short-term payables	432,340	–	–	–	432,340
	583,932	648,691	1,107,658	2,496,631	4,836,912
Derivative Financial Liabilities					
Net-settled commodity derivatives	42,410	39,873	32,867	–	115,150
Total as at 31 December 2017	626,342	688,564	1,140,525	2,496,631	4,952,062

Company	Within one year $000	1 to 2 years $000	2 to 5 years $000	Over 5 years $000	Total $000
As at 31 December 2017					
Non-derivative Financial Liabilities					
Loan notes	–	–	–	2,446,204	2,446,204
Short-term payables	361	–	–	–	361
Total as at 31 December 2017	361	–	–	2,446,204	2,446,565

Group	Within one year $000	1 to 2 years $000	2 to 5 years $000	Over 5 years $000	Total $000
As at 31 December 2016					
Non-derivative Financial Liabilities					
Short-term payables	1,127	–	–	–	1,127

There were no significant financial liabilities for the Company in 2016.

The maturity profile in the above tables reflect only one side of the Group's liquidity position. Interest bearing loans and borrowings and trade payables mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant and equipment and working capital such as inventories. These assets are considered part of the Group's overall liquidity risk.

24. Share capital

Allotted, called up and fully paid	2017 No.	2017 $000	2016 No.	2016 $000
A and B ordinary shares of £0.05 each	–	–	1,000,000	74
10% cumulative redeemable preference shares of £0.01 each	–	–	98,450,000	1,461
C convertible redeemable preference shares of $0.01 each	–	–	26,279,270	253
D ordinary Shares of $0.0001 each	–	–	67,996,530	6
F Ordinary shares of £0.01 each	981,100	12	–	–
G Ordinary shares of £0.40 each	18,900	10	–	–
M Ordinary shares of £0.01 each	9,305	–	–	–
		22		1,794

In January 2017, following the agreement to acquire the package of North Sea assets from Shell, the Group completed a financial restructure in conjunction with the Group's private equity investors. The restructure included the cancellation or redemption of the Company's existing equity share capital consisting of 1 million £0.05 A and B ordinary shares, 98.5 million £0.01 10% cumulative redeemable preference shares and 68.0 million $0.0001 D ordinary shares. In addition, the Company redeemed 26.3 million $0.01 C convertible redeemable preference shares in exchange for 10% unsecured C loan notes with a principal value of $26.6 million. The C loan notes are classified as a financial liability and presented on the balance sheet as long-term borrowings (note 21).

In January 2017, the Company issued 226,555 F ordinary shares of £0.01 each for cash consideration of $32.0 million and 9,305 M ordinary shares for cash consideration of $0.1 million. Additionally, the Company issued 501,000 F ordinary shares of £0.01 each and 18,900 G ordinary shares of £0.01 each for nil consideration.

Further issues of F ordinary shares for total cash consideration of $35.8 million occurred in April 2017 (56,640 shares), June 2017 (50,550 shares) and August 2017 (146,255 shares).

As at 31 December 2017, the share capital comprised of three classes of ordinary shares. Each F and G ordinary share carries equal voting and dividend rights. M ordinary shares carry no voting rights and are subordinate to both F and G ordinary shares regarding rights to dividend and other distributions.

Notes to the financial statements

for the year ended 31 December 2017 continued

25. Notes to the statement of cash flows

Net cash flows from operating activities consist of:

Group	2017 $000	2016 $000
Profit/(loss) before tax	471	(551)
Finance cost, excluding foreign exchange	43,978	1
Finance income, excluding foreign exchange	(260)	(19)
Depreciation, depletion and amortisation	100,847	180
Exploration write-off	7,276	3,081
Fair value movement on commodity based derivative instruments	21,365	–
Share option reserve	2	22
Unrealised foreign exchange loss/(gain)	1,724	(2,699)
Decrease/(increase) in royalty consideration receivable	12,171	(8,656)
Working capital adjustments:		
Decrease in inventories	29,758	–
Increase in trade and other receivables	(193,913)	(2,846)
Increase in trade and other payables	30,608	829
Net cash inflow/(outflow) from operating activities	54,027	(10,658)

Company	2017 $000	2016 $000
Profit before tax	8,828	22,962
Finance cost, excluding foreign exchange	15,203	1
Finance income, excluding foreign exchange	(24,045)	(23,187)
Depreciation, depletion and amortisation	73	179
Share option reserve	2	22
Unrealised foreign exchange gain	(5,206)	(1,013)
Working capital adjustments:		
Increase in trade and other receivables	(183)	(2,204)
(Decrease)/increase in trade and other payables	(706)	252
Net cash outflow from operating activities	(6,034)	(2,988)

26. Related party disclosures

The consolidated financial statements include the financial statements of the Company and its subsidiaries, a list of which is contained in note 13.

The Group's main related parties comprise members of key management personnel and Harbour Energy, Ltd (Harbour Energy) along with affiliated persons and entities. Harbour Energy is an energy investment vehicle formed by EIG Global Energy Partners and is the Group's primary private equity investor. Transactions with these related parties are disclosed below.

Issue of shares (Group and Company)
The Company completed a restructure of equity in the year as discussed in note 24. As part of the restructure Harbour Energy subscribed for 480,000 F ordinary shares of £0.01 each for a total cash consideration of $67.8 million. In addition, 9,040 M ordinary shares of £0.01 each were issued to certain members of key management for cash consideration of £10 per share.

Issue of shareholder loan notes (Group and Company)
As part of the financial restructure in 2017, a series of loan notes were subscribed for by institutional shareholders and key management (note 21) as follows. D loan notes with a principal value of $229.4 million were issued to Harbour Energy for cash consideration of $127.9 million, the issue of loan notes for non-cash consideration of $101.5 million primarily represented the settlement of advance payments made by Harbour Energy on behalf of the Group. Harbour Energy also subscribed for E loan notes with a principal value of $566.9 million for cash consideration at par value. In addition, the Company redeemed all C convertible redeemable preference shares and associated unexercised share options in the year held by key management personnel in exchange for C loan notes with a principal value of $1.6 million.

As at 31 December 2017, the carrying amount of D and E loan notes due to Harbour Energy was $809.1 million and the value of C loan notes due to key management personnel was $1.7 million. The amount of interest charged to the profit and loss account associated with loan notes payable to Harbour Energy and key management was $12.8 million and $0.1 million respectively. No interest was paid in the year.

The Company also pays governance and monitoring fees to its institutional shareholders, for the year ended 31 December 2017 the total fees payable to Harbour Energy amounted to $2.6 million and to other shareholders $1.0 million (2016: $0.2 million) with $nil outstanding as at the balance sheet date (2016 $nil).

Transactions between the Company and subsidiary entities
Balances between the Company and its subsidiaries have been eliminated on consolidation. Amounts receivable from group undertakings comprise loan arrangements and intercompany balances as shown in note 13 and note 16 respectively. Amounts payable to group undertakings are shown in note 19.

Transactions between the Company and its subsidiaries consist primarily of funding movements on the Group's intercompany loan arrangements and expenses recharged at cost to/from subsidiaries under the ordinary course of business. Movements in the year on loan arrangements and the associated interest receivable recognised in the profit and loss account are shown in note 13 and note 7 respectively. Cash advanced to subsidiaries by the Company under its loan arrangements is shown in the Company statement of cash flows.

Key management compensation
During 2017, the Group widened its key management team in preparation for the acquisition of the UK North Sea assets and business. Prior to 2016, key management personnel comprised only Executive and Non-Executive directors of the Company. Remuneration of key management personnel of the Group is shown below.

Group	2017 $000	2016 $000
Salaries and short-term benefits	2,908	1,181
Pension benefits	76	–
	2,984	1,181

26. Post balance sheet events

Chrysaor announced on 22 March 2018 that it had entered into an agreement with Spirit Energy to acquire its entire interests in the Armada, Maria and Seymour fields. As part of the transaction, Spirit Energy will retain associated liability for decommissioning subject to a cap. As a result of the acquisition, Chrysaor will own 100% of the Armada hub. On 26 March Chrysaor announced an agreement to acquire 15% equity in the Grevling discovery in the Norwegian North Sea with an option to acquire a further 20% for a total of 35%. Both agreements are subject to regulatory approvals.

The RBL facility has an accordion option which was exercised in February 2018 to increase the facility by $500 million. At the time of this report, the application process was being run with applications significantly higher than the magnitude of the accordion facility. The final allocations are anticipated to be made by the end of April 2018.