



CHRYSAOR

Annual Report and Accounts

31 DECEMBER 2020

Contents

CEO Foreword	4	Corporate Information	
Group Strategic Report		Directors	
1. 2020 Review	7	Linda Cook	Non-Executive Chairman
2. Business Model	9	Phil Kirk	Chief Executive Officer
3. Strategy	10	Andrew Osborne	Chief Financial Officer
4. Key Performance Indicators	12	Mark Brown	Non-Executive Director
5. Operations Review	14	Bob Edwards	Non-Executive Director
6. Financial Review	17	Steven Farris	Non-Executive Director
7. Risk Management	22	Andrew Jamieson	Non-Executive Director
8. Sustainability	25	R Blair Thomas	Non-Executive Director
		Terence Jupp	Non-Executive Director
		Benjamin Vinocour	Non-Executive Director) <i>(appointed 3 November 2020)</i>
Corporate Governance		Secretary	
9. Governance and Compliance	31	Howard Landes	
10. Our Board	32	Independent Auditors	
11. Regulatory Compliance	36	PricewaterhouseCoopers LLP	
Directors' Report and Financial Statements		The Capitol	
12. Directors' Report	38	431 Union Street	
Independent Auditors' Report	40	Aberdeen	
Consolidated Income Statement and Consolidated Statement of Comprehensive Income	46	AB11 6DA	
Consolidated Balance Sheet	47	Registered Office	
Consolidated Statement of Changes in Equity	48	Conyers Trust Company (Cayman) Limited	
Consolidated Statement of Cash Flows	49	Cricket Square	
Notes to the Financial Statements	50	Hutchins Drive	
Glossary	93	P.O. Box 2681	
		Grand Cayman	
		Cayman	
		KY1-1111	
		Cayman Islands	

CEO Foreword



2020 was a year of extraordinary challenges and enormous change. Our first priority, through the coronavirus pandemic, has been the safety of our people and I would like to thank our staff, their families, partners, suppliers and contractors for the commitment they have shown through this period. Their hard work, and the swift decisive action we took to minimise our offshore work scopes, suspend drilling projects and cease all non-essential activities helped ensure the continued safe and reliable operation of our assets and the safety and wellbeing of our people.

As a result of these measures and others our operational performance in 2020 was robust with production averaging 173 mboepd over the course of the year. Financially our revenues were supported by a strong commodity hedge programme leading to robust cashflow. In addition, the integration of the acquired ConocoPhillips UK business progressed successfully.

As we continue to grow, we know that taking action to reduce emissions, and align to the UK's target of net-zero carbon, grows ever more important. Over the last few years we have identified and started asset led, near-term, material carbon-reduction and efficiency initiatives. As a result, we see the pace and level of investment accelerating. I am proud that over the last year our staff bonuses and our cost of borrowing has been pegged to the success of this work. For the future we have also continued to invest in the Acorn and V Net Zero projects, two early-stage carbon capture and storage (CCS) projects together with potential associated hydrogen production. CCS and hydrogen production are a key part of the UK Government's net zero plans. They are also critical new activities for Chrysaor and the UK that may help accelerate decarbonisation, while creating new and protecting existing jobs.

In October 2020, we agreed the all-share merger with Premier Oil plc, beginning an exciting new chapter in our history. Forming the largest independent oil and gas company listed on the London Stock Exchange, the transaction adds to our scale in the UK, and for the first time, brings international production and operations beyond the North Sea. The enlarged Group will have a portfolio with combined production of greater than 230 mboepd in the calendar year 2020 and 2P reserves of over 600 mboe at 31 December 2020.

We expect to complete the deal around 31 March 2021, with the admission of the new group to the London Stock Exchange. The new company, Harbour Energy plc, will offer investors an independent oil and gas company of significant scale with a diversified UK asset base and an international footprint - together providing the basis for growth and returns. I look forward to our, and our industry's, next chapter and look back proudly at what we have achieved so far on our journey.

Phil Kirk
Chief Executive Officer

Group Strategic Report

1. 2020 Review

Since 2017, the Group has grown significantly, both organically and through acquisitions. Today, Chrysaor is the UK's leading independent North Sea oil and gas group (**the Group**).

Privately owned Harbour Energy is currently the majority shareholder with approximately a 90 percent equity interest.

Our UK asset portfolio consists primarily of high-quality, mid-life oil and gas production assets on the UK Continental Shelf (**UKCS**). We have a maturing exploration and development portfolio with 14 new licences awarded during the year. Our reserves and production portfolio is balanced between crude oil and natural gas. We also have a highly diverse asset base, with a material interest in 11 UKCS producing hubs.

We operate the Greater Britannia Area (**GBA**), the J-Area and the Armada, Everest, Lomond and Erskine (**AELE**) hub, which together account for around two-thirds of our total production. We have non-operated interests in some of the UK's largest producing fields, including the Beryl Area, Elgin/Franklin, Buzzard, Schiehallion and Clair as well as interests in the East Irish Sea (**EIS**).

In Norway, our portfolio is currently within the exploration and appraisal (**E&A**) phase. We currently have working interests in 17 licences on the Norwegian Continental Shelf (**NCS**). Of these, six were awarded in the Norwegian Awards in Predefined Areas (APA) 2020 licensing round in January 2021. Our operated drilling programme on our Norwegian Jerv and Ilder exploration prospects in PL973 has commenced with the spudding of the Jerv well in February 2021.

The main unexpected challenge to business in 2020 was the coronavirus pandemic. We responded to the implementation of national lockdowns by asking staff to work from home for all office-based positions with limited office access. We took steps across our business to reduce offshore activities and implemented barriers across our operations to keep our people safe.

2020 highlights

Measure	2020	2019
Production (mboepd)	173	137
Costs per barrel (\$/boe)	11.5	11.5
EBITDAX (\$ million)	1,784	1,692
(Loss)/profit after tax (\$ million)	(778)	218
Capital investment (\$ million)	556	552
Operating cash flow after capital expenditure (\$ million)	775	988
Net Debt (\$ million)	1,400	1,890

Note: 2020 contains the first full year's performance of the ConocoPhillips business acquired on 30 September 2019.

Operational performance

Chrysaor's production in 2020 averaged 173 mboepd (2019: 137 mboepd). This increase reflected the impact of the acquisition of ConocoPhillips UK assets in September 2019 and the deferral of the planned Forties Pipeline System (**FPS**) shutdown to 2021. The majority of Chrysaor's own 2020 summer turnarounds were also moved to 2021 to align with the FPS shutdown. The associated positive effect on 2020 production was offset by the deferral from new wells as a result of our decision to suspend operated drilling for six months due to the coronavirus.

Operating costs continue to reflect good cost control with costs per barrel for the year at \$11.5/boe (2019: \$11.5/boe).

For the year ended 31 December 2020, earnings before interest, taxes, depreciation, impairment, amortisation and exploration expenses (EBITDAX) was \$1,783.8 million (2019: \$1,691.8 million).

At 30 June 2020, Chrysaor had 2P reserves of 491 mboe per the Competent Persons Report in the Prospectus relating to the Premier Oil transaction (2019: 551 mboe) and in H2 2020 produced 29 mboe.

Coronavirus

Coronavirus had a significant impact on our operations in 2020, but our early actions to address and mitigate its effect meant that we continued to perform well during the period.

In February 2020 we mobilised dedicated crisis and business continuity teams to oversee our response to the impact of the virus on business operations. These remain in place and we continue to prioritise the safety and wellbeing of our workforce and ensuring adherence to Government legislation and guidance.

Our onshore personnel predominantly worked from home during the year with only minimal safety and business critical activities in the office. We reduced offshore activities to managing base operations and safety-critical maintenance. This, in turn, reduced our platform manpower levels. We implemented a 'barrier' approach, with numerous, systematic measures to prevent the virus reaching our offshore installations. This included pre-mobilisation screening and testing for our offshore workforce, deploying

isolation tracking, adjusting rota patterns and contracting a dedicated medical evacuation helicopter to minimise potential coronavirus contact time on the platforms. We temporarily suspended operated drilling activities for six months up to September.

HSEQ

We managed operations safely and responsibly thanks to the efforts of our offshore and onshore workforce and contractors. Our health, safety and environmental performance was good, with half the number of incidents compared to 2019. We demonstrated a good safety culture of near-miss reporting. In addition, at year-end, the level of maintenance backlog hours was in line with expectations with safety critical work maintained despite having to defer various planned activities.

Financial performance

Financial performance was supported by a strong commodity hedge programme. This reduced the financial impact of the commodity price fall and the impact of coronavirus enabling robust cash generation. On the other hand, earnings were impacted by asset and goodwill impairments of \$798 million after tax, driven mainly by weaker commodity prices and movements in foreign exchange rates compared to the outlook before the pandemic and at the time of previous acquisitions.

The Group delivered post-hedge realised crude oil prices of \$63.1 /bbl (2019: \$67.8 /bbl) and NBP gas 33 p/therm (2019: 36 p/therm). This compares to average Brent crude prices of \$42 /bbl (2019: \$63 /bbl) and NBP gas 25 p/therm (2019: 35 p/therm).

Early decisions were taken to suspend operated drilling activity and shorten or defer summer shutdown activities. This reduced capital investment and operating costs and benefitted operating cashflow significantly generating \$775 million (2019: \$988 million). This in turn allowed a continued reduction in net debt of \$490 million to \$1,400 million from \$1,890 million. There were also loan note repayments of \$77 million.

Following an impairment review of our assets, we have recognised a pre-tax

impairment charge on property, plant and equipment of \$644.0 million (\$386.4 million post-tax) (2019: nil) as a result of changes to our long-term commodity price assumptions for impairment purposes to crude oil of \$60 per barrel and gas 40p per therm. In addition, we recorded a goodwill impairment charge of \$411.4 million in the period (2019: \$nil), also attributable to changes in the Group's assessment of long-term commodity prices. While the strong hedge programme protected the balance sheet position and revenue performance, it cannot be taken into account for impairment purposes.

In relation to the Premier deal, amendments to the RBL facility have been agreed to support the funding of the merger with Premier Oil plc at completion. The amendments will become effective during the completion process and include:

- term extended to 23 November 2027
- facility size of \$4.5 billion (with a \$750 million accordion option)
- debt availability at completion of \$3.3 billion
- a syndication group of 19 banks

i Signpost for more information, see **Financial Review** section 6

Acquisitions and integration

The integration project to combine the pre-existing Chrysaor and ConocoPhillips UK businesses acquired in 2019 continued throughout the year. This work is due to complete in 2022. Its completion will provide a common operating model and systems platform that will further facilitate for future acquisitions, scalability and increased efficiency. Planning the transition of the merged Premier business into the Chrysaor group is ongoing and the related integration effort will commence after completion of the deal.

Board changes

Non-Executive Director David Powell resigned from the Board on 3 November 2020. Benjamin Vinocour, Chief Corporate Development Officer and General Counsel for Harbour Energy, was appointed as a Non-Executive Director on 3 November 2020.

Sustainability

We continue to develop and integrate our environmental, social and corporate governance (ESG) strategy. As a reflection of the importance of climate change, Chrysaor is committed to achieving a 30 percent reduction in carbon emissions from our operated assets by 2025, with a further 20 percent by 2028.

We will continue to participate in CO₂ capture and storage initiatives as key enablers to achieving the Scottish and UK Governments' long-term goals of being a net-zero economy by 2045 and 2050 respectively.

In 2020, we incorporated carbon emission incentives into our senior debt facility as well as our annual performance scorecard. This is tied to the progress we make in reducing emissions from our operated assets.

Outlook

Our focus will continue to be on achieving safe, reliable operations that protect our people, assets and the environment, and generate value from within our portfolio.

In response to the coronavirus, we will ensure the safety of our workforce and assets following relevant UK, Scottish and Norwegian Government guidelines. We will continue to manage our response in parallel with normal business operations. Our aim is to ensure that our barrier model and response initiatives adhere to best practice and remain effective. When we are permitted to do so, we will manage the return to our onshore offices in a controlled and safe manner.

We are working to complete the prevailing business integration project. After completion of the deal with Premier which is expected by the end of March 2021, we will work to merge Chrysaor and Premier's assets and organisation safely and efficiently as Harbour Energy.

2. Business Model

Chrysaor is a full-cycle exploration and production (E&P) group with a business model that aims to create and safely deliver value, growth and returns for investors. We will achieve this through a balanced approach to production and development, combined with exposure to exploration and appraisal activity, and acquisitions.

We deliver our business model by employing a robust approach to risk management to help deliver our strategic goals. We have significant in-house operational expertise managing our operated assets and we work actively with non-operated asset partners to safely deliver value.

We have created and will maintain a self-sustaining, self-funding Group. This allows us to continuously evaluate opportunities and use innovation to deliver our strategic goals and add long-term sustainable value. Such innovations and opportunities encompass today's climate change challenges, where we are engaged in various technical development and application initiatives. These include carbon capture, hydrogen power and other potential power technologies to help achieve net zero carbon emissions. These will likely be essential to our long-term sustainability and viability.

We actively pursue acreage and interests in pre-licence and exploration phases to enable discoveries that can achieve potential new reserves. The appraisal phase reduces technical and commercial risks from our exploration successes, which allows us to prove-up reserves and optimise resources ahead of development planning and approval.

Development involves significant financial investment. It converts discoveries into profitable producing assets to realise value through safe and efficient production.

Our production portfolio and our focus on a competitive cost base, delivers robust cash flows for self-sustaining reinvestment, further acquisitions, repayment of debt funding or dividends to shareholders.

We will decommission our fields after their economic life has been exhausted. We regard the execution of the legal and regulatory requirements in the removal of unneeded infrastructure and environmental restoration as one of our core competencies.

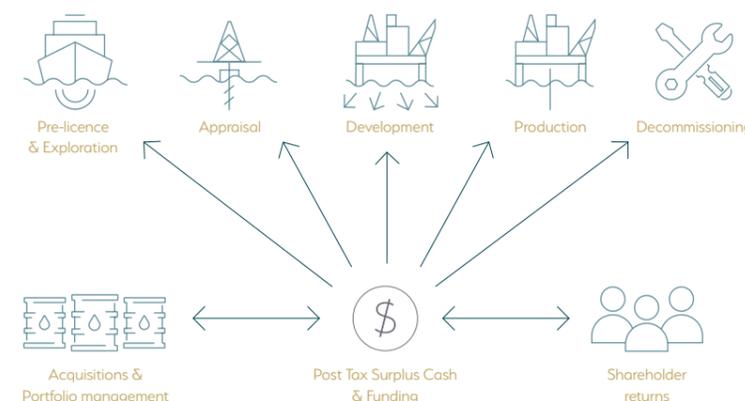
Acquisitions and disposals through prudent portfolio management continue to be essential to the growth of our group. We actively screen all potential acquisitions that could provide value enhancing opportunities within the current strategy and operational and financial goals. The key consideration is always "value before growth", which is how we deliver returns to our shareholders.

Chrysaor is primarily funded via a long-term debt facility provided by a syndicate of leading international banks. The balance sheet is managed to provide robust support through commodity cycles, even those as extreme as the present.

Our business model is ultimately to create and maintain a high-quality and diverse portfolio, which is self-funded and in turn safely creates shareholder returns in the form of capital growth and cash dividend returns to investors.

Early lifecycle and development phase activity drives changes in reserves and resources. We track capital investment and decommissioning expenditure across all later lifecycle phases. Production and operating costs per barrel indicators measure the production phase performance. All operational financial performance is aggregated within the operating cashflow measure. Finally operating cashflow with tax, financing and portfolio management are reflected within net debt.

Our business model is fully reflected in our **Key Performance Indicators** section 4 and our corporate performance scorecard.



3. Strategy

Our strategy is to deliver safe and sustainable growth and generate superior shareholder returns. We will do this by exploring, appraising, developing and commercialising oil and gas resources through organic initiatives and acquisitions across the business life cycle. This strategy consists of five pillars:

Safe and reliable operations

We strive to deliver safe and reliable operations through embedding our Values and Business Principles in the workplace. We demonstrate INTEGRITY and care PASSIONATELY about our people. SAFETY is fundamental to everything that we do, and we all have a critical role to play in ensuring that we maintain a safe working environment for ourselves and our colleagues both on and offshore.

Achieving our goals is only possible when we work together in an INNOVATIVE, focused and collaborative way to deliver a level of success we can all be proud of. We all have the authority and responsibility to stop any activity if we believe it to be unsafe or may compromise our values. Our overriding and most critical objective is always to prevent a Major Accident Event on our offshore installations. We all have a role in achieving this.

We pursue a rigorous annual Group health, safety, environment and quality (HSEQ) plan, endorsed by our leadership team. The Plan sets out high-level objectives and specific HSEQ initiatives addressing leadership, communication, competency, compliance and assurance, and other forward-looking priorities. It also supports the delivery of the broader objectives set out in the annual scorecard. The 2020 Plan was successfully completed.

Our Leadership Team monitor and review the Plan regularly with offshore leadership and safety representatives. We hold two independently facilitated HSEQ Management Reviews annually, which meet the requirements of International Standards ISO9001 and ISO14001 and the UK Health & Safety Executive document

HS(G)65. These allow open engagement on performance and identify areas for improvement between operational leadership and functional HSEQ staff.

We continue to invest in improving production efficiency, targeting top quartile performance. The near-term plan is to build on integrity and reliability gains and to drive further improvements in production efficiency, while managing known problem areas through continuous monitoring and preventative maintenance across the combined asset portfolio. This will allow longer-term views on production efficiency and reliability to be formulated that are integral to our carbon strategy.

Across our non-operated portfolio, we maintained close links with the operators and equity partners. These have allowed us to learn and pass on lessons across a wide operator base, which has led to shared efficiency and reliability improvements.

We recruit people who are appropriately experienced and are of a high calibre within their function using strategies and initiatives to ensure a low staff turnover rate. We ensure our people continue to develop through management and technical training and people engagement initiatives, which are aligned with our goals.

Hub-led growth strategy

Chrysaor employs a hub-led growth strategy to target new, near-field acreage and to attract third parties wishing to access processing and production capacity across our platform and pipeline infrastructure.

In the UK and Norway, we entered the 32nd Licensing Round and 2020 APA

Round. The blocks that we were awarded strategically target areas with the potential for organic growth at the pre-licence phase.

Maximise economic recovery with a net zero target

We continually seek opportunities to maximise value from our portfolio at all stages of the business lifecycle but in a way we and our stakeholders can always be proud of. As a long-term participant in the UK North Sea, we have played our part in helping shape the UK Oil & Gas Authority's (OGA) Strategy & Central Obligation; to maximise economic recovery whilst meeting the UK Government's net zero target. We endeavour to ensure our activities are planned, viewed and delivered from those twin obligations of maximising economic recovery and net zero.

At a corporate level, the Group had a disciplined hedging programme in place to optimise revenue generation and to manage commodity price volatility.

Build a sustainable and profitable full-cycle E&P Group

Chrysaor, as the UK's largest North Sea net producer, is a leading provider of hydrocarbons to help meet the UK's energy supply needs. This includes its use of chemicals, manufactured goods and technology that rely on hydrocarbon feedstock and products. We invest for the long term, targeting growth and development across all asset lifecycle phases, to maximise economic recovery. We are early engagers in transformational technologies that will deliver the carbon transition.

Chrysaor has been active in the pre-licence phase through award rounds in both the

UK and Norway, together with a review of purchased regional seismic data. 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.

Our development and production activities, most prominently our portfolio drilling programme, focus on incremental near, and in-field drilling. Our aim is to increase and extend economic field life and reduce production decline across our asset base.

We have a strong focus on value growth and capital discipline, and we apply rigorous, consistent evaluation across organic and acquisition opportunities. We screen our capital investment opportunities to achieve attractive risk-adjusted returns at conservative commodity prices. We employ innovative commercial deals and financing structures to align the interests of stakeholders and to achieve strategic objectives.

For Chrysaor and the industry to be sustainable for the long term, we must adapt and contribute to the reduction of all emissions, particularly greenhouse gases (GHGs) and invest in the potential of carbon capture initiatives. Society demands that our industry embrace the carbon transition and pursue the public policy objective of net zero carbon.

Financial strength

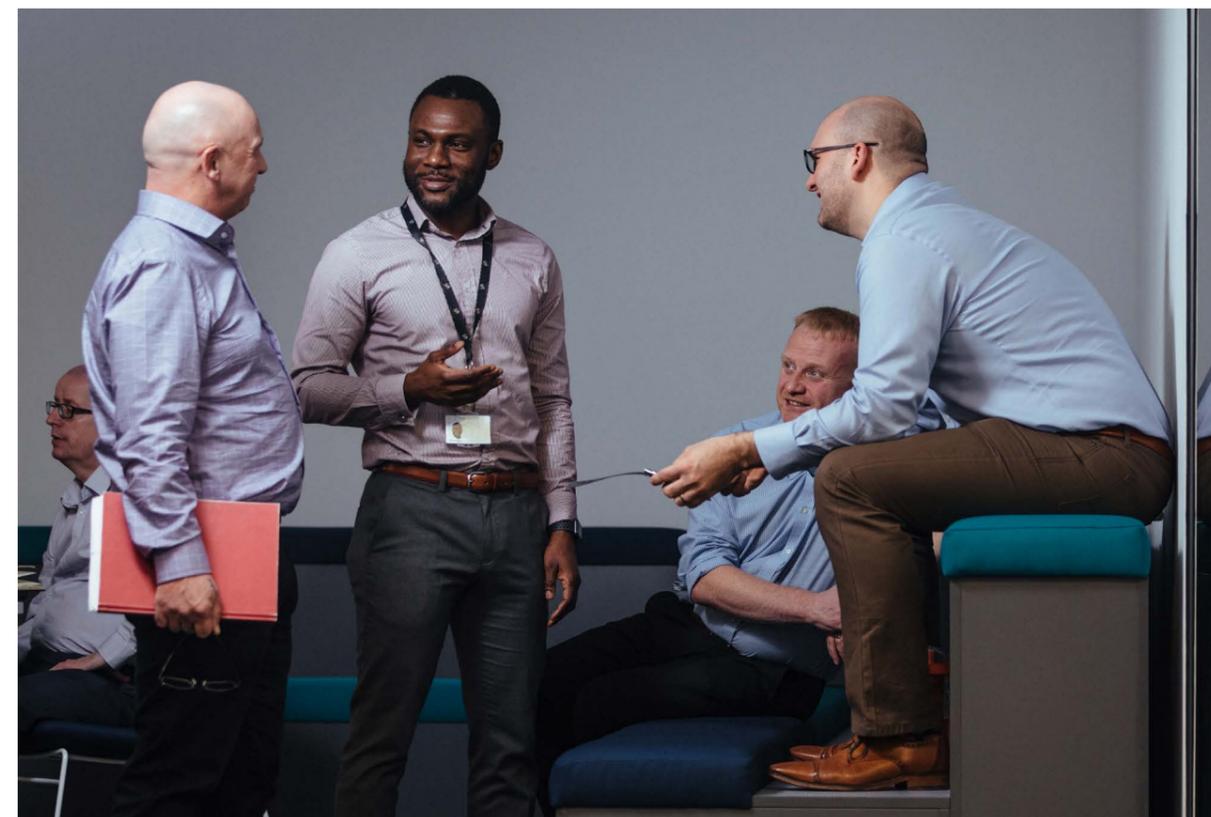
Chrysaor has strong operating cashflow from its producing assets. As a result, the Group is financially self-sustaining with sufficient free cashflow to cover capital reinvestment and manage its borrowings even in periods of commodity price downturns.

The Group is financially robust: our portfolio is capable of generating positive cashflow at low commodity prices. Financial management is specifically exercised through revenue hedging activities, and robust cost control,

to support the delivery of financial performance in line with the Board-approved budget and plans.

The capital funding structure consists of shareholder equity and loan notes plus a senior Reserves Based Lending (RBL) facility and junior debt facility from Shell.

Chrysaor continues to enjoy strong support from the international banking community, which is testament both to the quality and diversity of our current portfolio and strength of the management team. We actively engage and work with all our financing partners to realise our strategic objectives.



4. Key Performance Indicators

Safety and environmental

We use an annual performance scorecard to measure the performance of our business across specific financial and statistical benchmarks.

HSEQ

We aim to provide a suite of indicators to ensure we run our operations safely and reliably. Underlying these are several other indicators which the business uses to assess overall HSEQ performance.

- We recorded one Tier-2 hydrocarbon release in 2020 (2019: 0). We completed a comprehensive investigation on this high-ranked event and have widely shared the lessons learned within the organisation and with contracting companies. In 2020, we progressed HSEQ integration introducing consistent investigation of events and approaches for sharing what we learned.
- We measure total recordable incident frequency (**TRIF**) separately for operated and non-operated assets. The rolling 12-month operated TRIF increased to 1.17 (2019: 0.93) and the annual non-operated TRIF rose to 3.9 (2019: 0.9). Although we had fewer recordable injuries in 2020, the operated workhours were significantly lower due to the coronavirus. In 2021 we will focus on reducing the operated TRIF by increasing near-miss reporting. We have observed that this has a marked impact on the resulting number of unplanned events and injuries. Non-operated performance was hampered by several events within the first half of the year. We recognised key areas for improvement and worked with our joint-venture partners on these. We put a joint team in place to identify appropriate HSEQ improvements and what we need to do to prevent recurrence. This work is

continuing, with improvements made over the second half of 2020 and into 2021.

- Based on industry best-practice, we targeted a total of 1,500 hours of deferred safety-critical time and 28,500 hours of maintenance backlog hours across our operated platforms. We achieved 1,538 hours and 28,370 hours respectively, despite the impact of coronavirus and shutdown deferrals.

Production

Our objective is to maximise safe production from our existing portfolio, in-fill or development well drilling, well optimising initiatives and acquisitions.

Production was good in 2020 and the portfolio delivered average annualised daily production of 173 mboepd (2019: 137 mboepd) including a full year of production from the acquired ConocoPhillips business. In 2020 production was split 59 percent operated and 41 percent non-operated, with 48 percent liquids and 52 percent gas.

This increase in production reflects the impact of the acquisition of ConocoPhillips UK assets in September 2019 and the deferral of the planned Forties Pipeline System (**FPS**) shutdown to 2021. The majority of Chrysaor's own 2020 summer turnarounds were also moved to 2021 to align with the FPS shutdown. The associated positive effect on 2020 production was offset by the deferral of new wells as a result of our decision to suspend operated drilling for six months due to the coronavirus.

Capital expenditure

Capital expenditure is a measure of the Group's organic investment through all

lifecycle phases. Chrysaor's portfolio is weighted towards producing assets, and so the bulk of our expenditure is on development and producing wells, plus associated infrastructure. Total capital expenditure was \$556 million (2019: \$552 million), of which property, plant and equipment expenditure was \$416 million (2019: \$469 million). Exploration and evaluation expenditure and expenditure on non-oil and gas intangible assets was \$140 million (2019: \$83 million).

Costs per barrel

In 2020, we achieved a unit cost per barrel of \$11.5 (2019: \$11.5/boe) which mainly includes direct operating costs and tariff expenses. This was underpinned by good cost control and planning within the business.

Cash flow before interest and tax

This measure recognises the importance of maintaining and improving our financial position with respect to balance sheet strength, debt repayment and financing costs, and providing shareholders with long-term returns. Cash flow before interest and tax, which is equivalent to operating cash flow less capital expenditure, was \$775 million (2019: \$988 million for the year). We expected this reduction due to commodity price falls but mitigated it with a strong hedge programme and by significantly reducing capital and operating expenditure from that expected.

Net debt

Net debt which consists of total debt less cash and cash-equivalent balances decreased to \$1,400 million from \$1,890 million. In addition, there were loan note repayments of \$77 million.

Reserves

This measure quantifies the reserves of hydrocarbons that will provide for our future production. We aim to increase reserves continually through enhanced recovery operations, successful drilling results and value-enhancing acquisitions.

At 30 June 2020, Chrysaor had 2P reserves of 491 mboe per the Competent Persons Report in the Prospectus relating to the Premier Oil transaction (2019 year end: 551 mboe) and in H2 2020 produced 29 mboe.

Energy and carbon emissions reduction strategy

In 2019, Chrysaor adopted a Carbon and Energy Reduction Strategy (**CERS**) describing how we will contribute to the reduction in atmospheric greenhouse-gas emissions. The strategy describes our actions on the dual challenge the world energy markets face, whereby an increase in energy supply is required to meet future demand, but with a lower greenhouse-gas intensity.

Our CERS is part of our environmental, social and governance assurance system. It consists of a framework and goals, supported by data analytics, to improve our understanding of the current emissions and power usage. We have identified initiatives

to reduce the Scope 1 emissions on our operated assets by making changes and upgrades to existing plant. We have also adjusted operating models and adopted new technologies to lower emissions. Our strategy seeks to align with the Scottish and UK Governments' long-term goals of being a net-carbon-zero economy by 2045 and 2050 respectively.

Our strategy is based on:

- setting goals and planning for success
- acquiring and analysing data
- upgrades, modifications and optimisation
- stakeholders, decarbonising, and carbon sinks

This systematic approach will help meet the dual challenge today, and as it evolves, we will review its effectiveness bi-annually. It also allows us to benchmark our preparedness for the energy transition with sector peers and other industries in an internationally recognised manner.

The strategy presents key performance metrics aimed at supporting the 30 percent reduction target in annual absolute operated-asset CO₂ emissions by 2025, and a 50 percent reduction by 2028. Long term, our aim is to be net-zero across our business. More detailed KPIs to support these high-level targets are the carbon intensity of the operated production activities and annual absolute operated-asset CO₂ emissions

(i.e. Scope 1 emissions).

In 2020, Chrysaor established its first annual target of 950,000 tonnes of gross operated CO₂ emissions, against which the 30 percent and 50 percent reduction targets will be measured. This measure was included in the company performance scorecard, a component of the staff annual bonus scheme.

2020 has been a challenging year for reducing operational emissions due to the impact of coronavirus, which delayed some of the planned upgrades. However, we were able to continue projects throughout the year that supported annual reductions in CO₂ emissions of 77,700 tonnes. These included changes in compression train operating modes, air filter upgrades, reducing the number of oil line pumps, reducing separator pressures and reduction of generator purge timers. Maintaining focus on emissions-reduction projects and plant optimisation, we achieved total gross operated CO₂ emissions of 899,152 tonnes, against the target of 950,000 tonnes.

We also maintain a hopper of emission reductions opportunities for future screening and assessment, to reduce our operational emissions and carbon intensity. The energy transition team continues to work closely with our hub management to schedule projects for implementation.



5. Operations Review

Overview of Chrysaor's portfolio of assets in the UK and Norway.



UK

Chrysaor operates five production complexes in the central North Sea (CNS), run out of three hubs: the AELE hub, the J-Area and GBA. We also have producing assets in the EIS.

In total, we have interests in 35 producing fields in the UK, mostly in the CNS area, alongside 14 undeveloped discoveries close to our existing infrastructure. We also have interests in an ongoing decommissioning project in the southern North Sea (SNS).

In 2020, the coronavirus pandemic and the commodity price collapse created a difficult business environment, but one in which we demonstrated our resilience. Our diverse and flexible portfolio, strong balance sheet and thorough hedging programme have allowed us to maintain good operational performance and achieve strong cash generation. We took the early decision to suspend operated drilling activity for six months from March which resumed in September.

Looking ahead, we expect 2021 production will continue to be impacted by the deferral of drilling activity and shutdowns from 2020 to 2021 due to coronavirus.

Operated production

Assets acquired from ConocoPhillips contributed three months of performance in 4Q 2019, however corresponding 2019 production figures are shown as an annualised equivalent.

J-Area had a strong production delivery of 31 mboepd (2019: 21 mboepd annualised equivalent) and a high production efficiency. Production efficiency was affected by unplanned shutdowns associated with the CATS gas terminal in April and October. We carried out a proactive shutdown ahead of schedule in December 2020 to allow repairs to be carried out on the low-pressure flare system. We successfully completed the Joanne Chalk S16 well and started production ahead of schedule in January 2021. Initial performance is in line with expectations.

GBA achieved good operational results across health, safety, environment and production. Production averaged 40 mboepd (net) (2019: 10 mboepd annualised equivalent) with excellent production efficiency and good well performance from the Brodgar field. We made good progress on the Finlaggan development tie-in project and on the re-scheduling of the Callanish F5 well. In addition, two well-intervention

campaigns successfully returned several long-term shut-in wells back to production and increased the output from others.

The AELE hub production averaged 31 mboepd (net) (2019: 39 mboepd). The Hawkins and Seymour Horst wells, which were brought on stream in October 2020, are performing below pre-drill expectations with remedial action under consideration. In December 2020, we sanctioned the LAD infill development well at Everest East, with drilling scheduled for 3Q 2021.

Production from EIS averaged 6 mboepd (net) (2019: 2 mboepd annualised equivalent). This was below expectation, with the fields experiencing two significant outages in the year – a control system issue on the Calder platform in the first half, followed by a compressor issue at the North Morecombe terminal. Combined, these issues led to a low production efficiency. We are evaluating a variety of potential developments in the EIS, along with asset-integrity projects to improve reliability.

Non-operated production

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

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

Production from EIS averaged 6 mboepd (net) (2019: 2 mboepd annualised equivalent). This was below expectation, with the fields experiencing two significant outages in the year – a control system



issue on the Calder platform in the first half, followed by a compressor issue at the North Morecombe terminal. Combined, these issues led to a low production efficiency. We are evaluating a variety of potential developments in the EIS, along with asset-integrity projects to improve reliability.

Production from the Clair Phase 1 and Clair Ridge fields averaged 5 mboepd (net) (2019: 1 mboepd annualised equivalent). A high Phase 1 production efficiency was offset by delayed drilling and poorer performance on Clair Ridge. The Ridge development has executed eight of their sanctioned 36-wells to date. A ninth well has been drilled and completed. These are producing lower than their pre-drill expectations and three have seen water breakthrough. This is not unexpected given the nature of the reservoir. Near-term production from Clair Ridge is lower than predicted. We are now considering optional infill campaigns, beyond the sanctioned wells.

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

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

Decommissioning

We maintained a full-year decommissioning programme while implementing strong coronavirus protection measures. We plugged and abandoned (P&A) eight wells on Murdoch then moved to Vulcan for a 12-well programme. We continued with platform removals and lifted out nine during the year, including Viking Bravo. We took all structures to Great Yarmouth for dismantling. Demolition on the Theddlethorpe Gas Terminal started in

February 2020. By year-end the project was 50 percent complete, with over 11,000 tonnes of steel removed from the site for recycling. We completed the first phase of the MacCulloch well P&A campaign in March, with five wells abandoned. Phase two started in October.

Energy transition

We progressed energy transition activities in several areas. We significantly reduced CO₂ emissions from our operated assets through changes in operating practices and by carrying out modifications to facilities. We also established a project, which although in its early stages, looks at importing low carbon power to enable partial electrification of our CNS platforms. This in turn would reduce gas turbine emissions from power generation. Carbon capture and storage (CCS) activities progressed during the year, with the Acorn project moving through preliminary engineering. The project will combine CCS and hydrogen generation at the St Fergus gas terminal, with transportation and storage offshore at the Goldeneye field reservoir. In the SNS, we established a project team to pursue the reuse of existing infrastructure by storing CO₂ in depleted gas reservoirs. As part of this, we submitted two CO₂ storage licence applications to the UK Regulator.

Exploration and appraisal

In 2020, we continued to mature our prospective resource inventory and focus on well planning. We were successfully awarded 14 new licences on the UKCS. Our planned 2020 operated drilling campaign was delayed until 2021 due to the coronavirus pandemic. Exploration opportunities such as Dunnottar, Jade South and the appraisal Talbot well are now due to spud in 2021. We completed the non-operated, Greater Beryl exploration campaign, including Solar, Gair, Gamma and Losgann.

Norway

In January 2020, we were awarded eight production licences on the NCS by the Ministry of Petroleum and Energy in relation to the APA 2019 Offshore Licensing Round. These new awards, of which three are operated, are across a variety of work programmes including one 'firm well' and additional 'drill or drop' commitments. At 31 December 2020, we held 11 licences in Norway.

In response to the coronavirus outbreak, our PL.973 partners postponed the start of the planned drilling campaign from 4Q 2020 to 1Q 2021.

In June, the Norwegian parliament made a temporary change to the fiscal regime on the NCS to mitigate the combined effect on the offshore industry of coronavirus and low commodity prices. This allows companies to offset 100 percent of all investments against the special tax base of 56 percent in the year of investment and use the uplift of 24 percent against the special tax base. These measures apply to all investments made in 2020 and 2021 as well as investments where a plan for development and operation and a plan for installation and operation is sanctioned and submitted by the end of 2022. These must be approved by the end of 2023 and until first production.

In August 2020, we awarded a drilling contract comprising two firm wells and one optional well. The rig will be used in the PL.973 drilling campaign with a scheduled start date in 1Q 2021.

Outlook

We expect 2021 production to average in the range of 140-155 mboepd (excluding the impact of the Premier deal). This reflects 2020 second-half production of approximately 160 mboepd and an unusually high level of asset shutdowns during 2021, caused by coronavirus-related maintenance deferrals. These include a deferred shutdown of the FPS, which affects several of our key production hubs.

Chrysaor expects total 2021 capital expenditure to be in the range of \$750-850 million, principally relating to drilling and development activities at J-Area, AELE, Beryl and Buzzard field, and including c. \$170 million for decommissioning (pre-tax relief).

6. Financial Review

Our 2020 consolidated results reflect the first full year of operations following the acquisition of the ConocoPhillips UK business, which completed on 30 September 2019. Comparative figures for 2019 therefore represent three months of operations following the acquisition, and the legacy Chrysaor business.

Background

The macroeconomic environment for the oil and gas industry deteriorated significantly during 2020. This was caused by persistent global oversupply and a reducing demand due to the worldwide economic impact of coronavirus. This in turn led to a sharp decline in commodity prices. Despite an agreement in April between the Organisation of the Petroleum Exporting Countries (OPEC) and material non-OPEC producers to remove almost 10 million barrels of oil equivalent per day from production in May and June (the equivalent of around 10 percent of the world's oil supply), oil prices have only partially recovered.

The Brent crude price at the end of 2019 was approximately \$67 per barrel and closed lower at around \$50 per barrel at 31 December 2020. For the year, Brent crude averaged \$42 per barrel, compared to \$64 per barrel in 2019. NBP gas prices were 30 p/therm at the end of 2019, but closed at 57 p/therm at 31 December 2020, averaging 25 p/therm for the year. This compared to 35 p/therm for the year ended 31 December 2019.

Despite this, we are in a very healthy financial position in part due to our hedging position in 2020. We have strong cash balances and access to undrawn liquidity provided by our senior debt facility.

Production and revenue

Production for 2020 averaged 173 mboepd compared to 137 mboepd in 2019. This year-on-year increase came wholly from our operated assets, with increased equity in the J-Area and equity in the GBA. Everest also had excellent production, and Elgin/Franklin produced high volumes due to their strong uptime levels and good well performance.

Some of our hydrocarbon production is sold pursuant to fixed-price contracts, as described below under 'derivative financial instruments'. The rest is sold at market values, subject to standard quality and basis adjustments.

Total revenue, before lease accounting recoveries from partners, earned from production activities amounted to \$2,413.9 million (2019: \$2,357.8 million) after realised hedging gains on crude oil and gas sales of \$789.0 million (2019: gains of \$162.2 million). Crude oil sales from customers amounted to \$1,430.1 million (2019: \$1,568.2 million), with a post-hedge realised price of \$63.1/bbl (2019: \$67.89/bbl). Gas revenue was \$805.2 million (2019: \$625.5 million), with a realised price of 33 p/therm (2019: 36 p/therm). Condensate sales and tariff and other revenue amounted to \$138.4 million (2019: \$145.5 million) and \$40.2 million (2019: \$18.6 million) respectively.

Operating profit

For the year ended 31 December 2020, EBITDAX was \$1,783.8 million (2019: \$1,691.8 million). Operating loss was \$687.4 million, significantly impacted by impairment to property, plant and equipment of \$644.0 million and goodwill of \$411.4 million, compared to an operating profit of \$762.5 million for the year ended 31 December 2019. Cost of sales, including field operating costs, transportation tariffs and depreciation, depletion and amortisation (DD&A) amounted to \$1,827.5 million (2019: \$1,516.5 million). Field-operating costs, including insurance, less tariff income, totalled \$730.0 million (2019: \$572.3 million), equivalent to \$11.5/boe (2019: \$11.5/boe).

Cost of sales also included a \$119.9 million credit (2019: \$26.2 million charge) in respect

of movements in overlift/underlift and in hydrocarbon inventories.

We have maintained our operating costs per barrel, demonstrating good cost control and efficiency. Group depreciation, depletion and amortisation (DD&A) charges on oil and gas assets (including capacity rights) amounted to \$1,193.0 million (2019: \$899.6 million), equivalent to \$18.9/boe (2019: \$18.0/boe).

During the year, the Group recognised a net pre-tax impairment charge of \$644.0 million (post-tax \$386.4 million) within the income statement. This represents a write-down of property, plant and equipment of \$712.1 million. This is offset by a pre-tax impairment credit of \$68.1 million in respect of reductions to decommissioning estimates on the Group's non-producing assets with no remaining net book value.

This arises primarily based on the change of commodity price assumptions for impairment purposes to \$60 per barrel for crude oil and 40p per therm for natural gas rather than a fundamental change in the nature of the producing assets. These assumptions reflect a reduction compared to the \$65 per barrel for crude oil and 50p per therm used for the purchase price accounting for the acquisition of the ConocoPhillips business. Impairments on property, plant and equipment are potentially reversible in the future.

In addition, we recorded a goodwill impairment charge of \$411.4 million in the period (2019: \$nil). This was also attributable to changes in the Group's assessment of long-term commodity prices and is not reversible in the future.

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

	31 December 2020 \$million	31 December 2019 \$million
Operating costs		
Field operating costs less tariff income	730.0	572.3
Field operating costs per barrel (US\$ per barrel)	\$11.5	\$11.5
DD&A (before impairment charges)		
Depreciation of oil and gas properties	1,191.3	897.5
Amortisation of intangible assets	1.7	2.1
Total	1,193.0	899.6
DD&A (before impairment charges) per barrel	\$18.9	\$18.0
Impairments		
Property, plant and equipment	644.0	-
Goodwill	411.4	-
Total	1,055.4	-

Chrysaor has recorded an \$18.5 million (2019: nil) onerous-contract provision for long-term standby costs on the rig which had been operating within the Schiehallion field. Given there were no future approved activities, which would have resulted in the rig remaining on standby until April 2022, the rig contract was terminated by the Operator.

General and administration expenses for the year amounted to \$48.6 million (2019: \$75.5 million). The underlying business incurred \$31.5 million compared to \$26.4 million in 2019. In 2020, one-off business development expenses were \$13.5 million which were primarily professional fees incurred in relation to the proposed merger with Premier Oil plc; this compares to \$38.2 million in 2019 which consists mainly of one-off costs related to the acquisition of the ConocoPhillips business. Also included in 2020 were share-based payments expenses of \$3.6 million compared to \$10.9 million in 2019.

Exploration and evaluation expenditure

In 2020, Chrysaor expensed \$174.0 million (2019: \$15.3 million) of E&A activities. Of this \$160.8 million (2019: \$0.2 million) was exploration write-off primarily associated with acquired acreage which is now considered less prospective.

In addition there was pre-licence expenditure of \$13.2 million (2019: \$15.1 million). This was mainly related to corporate licence applications, Norwegian regional seismic and time-writing costs.

Net financing costs

Financing expenses totalled \$297.8 million (2019: \$338.6 million), including debt facilities and shareholder loan-note interest expenses of \$123.8 million (2019: \$153.7 million). Also included are facility fees of \$36.1 million (2019: \$39.3 million) and the unwinding of discount on provisions, primarily associated with future decommissioning obligations, of \$87.8 million (2019: \$57.6 million).

Of the interest expense, \$25.4 million (2019: \$69.7 million) relates specifically to

shareholder loan notes, which have been accumulated within borrowings for future settlement in accordance with the terms of the loan-note agreements. The comparative reduction in loan-notes interest is mainly due to the conversion of E loan notes into equity, which took place in August 2019. In addition, a full redemption of C loan notes and a partial redemption of D loan notes took place throughout 2020 of \$35.1 million and \$42.0 million respectively.

Financing costs include foreign-exchange losses of \$36.1 million (2019: \$82.2 million loss). These primarily arise on intercompany balances between entities with different functional currencies.

The financing costs also include a lease interest charge of \$7.2 million (2019: \$2.5 million) associated with lease creditors recognised under International Financial Reporting Standards (IFRS) 16 Leases, and other interest of \$6.6 million (2019: \$3.1 million).

Finance income of \$7.5 million (2019: \$31.6 million) relates to bank and other interest.

Taxation

Taxation credits amounted to \$199.3 million (2019: \$236.7 million expense), split between a current tax expense of \$335.6 million (2019: \$94.8 million), and a deferred tax credit of \$534.9 million (2019: \$141.9 million expense). The total tax credit for the year represents an effective tax rate of 20 percent (2019: 52 percent). The low effective tax rate is predominantly driven by a non-tax deductible goodwill impairment, losses relievable at lower tax rates, and unrecognised tax losses, partly offset by the benefit of investment allowance.

Loss after tax and dividends

The loss after tax was \$778.4 million (2019: profit of \$218.8 million). No dividends were paid or proposed in the current or prior year.

Capital expenditure

Capital expenditure is defined as additions to property, plant and equipment (excluding right-of-use lease assets), fixtures and fittings and intangible exploration and evaluation assets, less decommissioning asset additions.

In 2020, we incurred capital expenditure of \$556.3 million (2019: \$551.6 million) consisting primarily of expenditure on oil and gas assets of \$414.9 million. This expenditure was on a range of activities including drilling of exploration and development wells and FEED activity as well as well intervention activity on producing wells.

Capital expenditure of \$50.2 million (2019: \$12.7 million) on non-oil and gas assets mainly relates to IT software incurred as part of the Enterprise Management System (EMS) project.

	31 December 2020 \$million	31 December 2019 \$million
Additions to oil and gas assets	(414.9)	(452.0)
Additions to fixtures & fittings, office equipment	(1.1)	(5.1)
Additions to exploration and evaluation assets	(90.1)	(81.8)
Additions to non-oil and gas assets	(50.2)	(12.7)
Total capital investment	(556.3)	(551.6)
Movement in working capital	(58.4)	17.5
Capitalised lease payments	16.6	3.9
Cash capital expenditure per the cash flow statement	(598.1)	(530.2)

Cash flow

Operating cash inflow amounted to \$1,373.4 million (2019: \$1,518.7 million) after working capital movements. This operating cashflow was used in investing activities on capital expenditure of \$598.1 million (2019: \$530.3 million). Investing cashflows in 2019 also included expenditure on business combinations and acquisitions of \$2,255.2 million.

Financing activities cash flow includes further advances of the senior debt under the Reserves Based Loan (RBL) facility of \$157.5 million (2019: \$1,834.0 million), less repayments of \$774.0 million (2019: \$200.0 million) of the senior debt. In addition, interest paid of \$147.8 million (2019: \$143.9 million) including \$107.4 million on the senior and junior debt facilities (2019: \$72.6 million) and \$40.4 million on charges and fees (2019: \$71.3 million)

mainly in relation to arrangement and underwriting fees in respect of the RBL facility. During the year, a full redemption of the C loan notes took place of \$35.1 million and a partial redemption of the D loan notes of \$42.0 million. Financing cash flows also include further advances of \$12.9 million (2019: \$9.3 million) less repayments of \$8.7 million (2019: nil) on the exploration finance facility, loan repayments of \$1.6 million (2019: advances received of \$29.6 million) in respect of a financing arrangement with Baker Hughes, and lease payments of \$60.5 million (2019: \$20.6 million).

Cash balances decreased by \$127.8 million (2019: \$256.9 million increase) to \$445.4 million (2019: \$573.2 million) at the end of the year.

Derivative financial instruments

Chrysaor carries out hedging activity to manage commodity price risk to ensure it complies with the requirements of the RBL facility, and to ensure there is sufficient funding for future investments.

In prior years, we entered into a series of fixed-price sales agreements and a financial hedging programme for oil and gas consisting of swap and collar instruments. This continued throughout the year ended 31 December 2020. Future production volumes hedged under the physical and financial arrangements in place at 31 December are set out below. Hedges realised in the year are in respect of both crude oil and gas.

Hedge position	2021	2022	2023	2024	2025
Oil					
Volume hedged (mboe)	20.01	1.1	-	-	-
Average price hedged (\$/bbl)	57.51	60.07	-	-	-
Gas					
Volume hedged (million therms)	1,235	1,392	1,136	433	90
Average priced hedged (p/therm)	43.9p	43.8p	40.9p	42.9p	44.6p

At 31 December 2020, Chrysaor's financial hedging programme on commodity derivative instruments showed a net positive fair value of \$141.8 million (2019: \$352.4 million positive fair value) with no ineffectiveness charge to the income statement (2019: \$nil).

During the year, Chrysaor entered into interest rate and financial carbon swaps, and foreign exchange forward contracts. You can find further details on these within notes 23 and 24 to the financial statements.

Capital structure

Analysis of Net borrowings	31 December 2020 \$million	31 December 2019 \$million
Cash and cash equivalents	(445)	(573)
Senior debt under RBL facility	1,449	2,067
Junior debt	396	396
Net debt	1,400	1,890
Shareholder loan notes	265	317
Exploration financing facility	14	9
Financing arrangement with BHGE	37	34
Total net borrowings	1,716	2,250

Net debt

Net debt, consisting of senior debt and junior debt less cash balances, decreased by \$490.2 million in the year to \$1,399.6 million (2019: \$1,889.8 million). This was mainly due to net repayments on the RBL senior debt of \$616.5 million offset by the reduction in cash balances of \$127.8 million.

The asset base consists mainly of producing assets and is currently highly cash generative. Therefore, our strong liquidity position, together with the RBL facility, continues to provide a strong base for future funding and growth opportunities.

The RBL facility at 31 December 2020 has a straight-line amortisation period commencing on 1 January 2022 up to the maturity date of 31 December 2025. The amount available under the facility is determined annually based on a valuation of the Group's borrowing base assets under certain forward-looking assumptions. The facility has been amended on various occasions and now carries interest at USD LIBOR plus a margin of 3.25 percent, rising to a margin of 3.5 percent from June 2023. It also now incorporates the ability for the margin to be adjusted based on meeting certain carbon-emission reduction targets.

Amendments to the RBL facility have been agreed in relation to funding the merger

with Premier Oil plc at completion. The amendments will become effective during the completion process and include:

- term extended to 23 November 2027
- facility size of \$4.5 billion with a \$750 million accordion option
- debt availability at completion of \$3.3 billion
- a syndication group of 19 banks

The junior facility of \$400 million carries interest at six-month USD LIBOR plus a margin of 5.25 percent, rising to a margin of 5.5 percent from June 2023. It is repayable in semi-annual instalments between June 2022 and June 2026.

Insurance

Chrysaor carries out significant and appropriate insurance programmes to minimise the risk to its operational and investment programmes. This includes business interruption insurance.

Principal financial risks and uncertainties

The management consider that Chrysaor is exposed to the following principal financial risks:

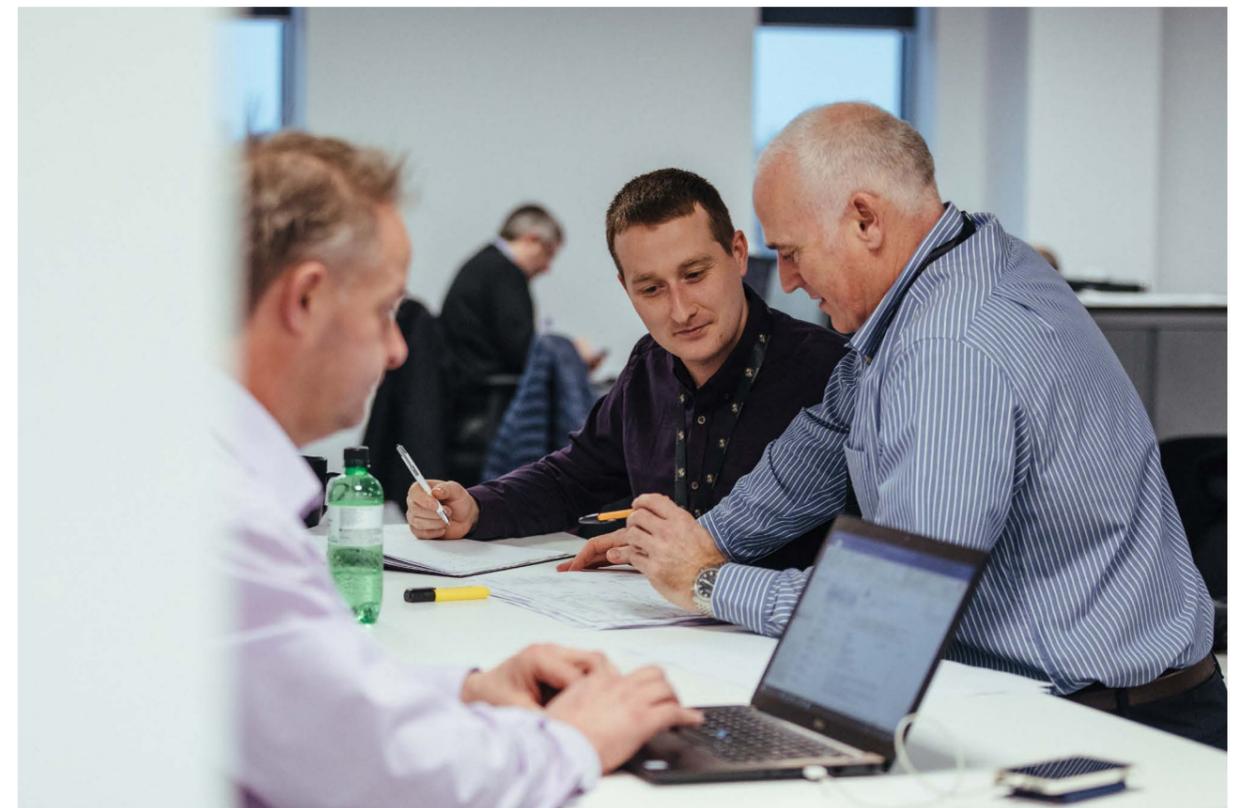
- Commodity prices, interest rates and foreign exchange market volatility
- Asset operational performance and drilling results
- Maintaining cash flow, liquidity and access to funding
- Coronavirus pandemic

For a further discussion of these risks and uncertainties refer to the principal risks in the **Risk Management** section 7.

Non-IFRS measures

Chrysaor uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. These non-IFRS measures include capital expenditure, cost per barrel, DD&A per barrel equivalent, EBITDAX and net debt.

i Signpost: See **Glossary** for further details



7. Risk Management

Chrysaor's Board is responsible for implementing an effective risk management and internal control environment that allows us to identify our principle risks. We record risks and opportunities along with their mitigations.

Principle risks

The principle risks that Chrysaor is exposed to are those that the Board consider as the most significant due to their likelihood and magnitude of potential consequence and nature. These are directly overseen by senior management. Accountability for managing the lower level risks is delegated to operational and functional leadership. These activities are subject to regular audit and assurance through the risk and opportunity management process.

a. Strategic

(i) Strategy delivery

We can achieve organic growth by prudently managing our existing portfolio and adding new acreage. The risk is that our assets do not perform optimally, or we acquire poor acreage and do not maximise value from our portfolio.

This is mitigated by strategic guidance, planning and technical analysis. Combined with a strict capital allocation programme, this ensures we apply funds to the most technically and economically attractive opportunities. It is complemented by analysis of capital projects and asset reporting, reflected in the performance scorecard.

We focus on targets where there is value-accretion potential, but these have inherent risks. They include competitors, nature of the portfolio and commercial leverage – all of which may prevent us from achieving our strategic growth objectives if we cannot complete deals. Even with successful acquisitions, there are risks which may result in impairments and adverse cash flow.

We mitigate these by ensuring a full understanding of the assets in the market. We support this by using competent third-party advisors for all aspects of pre-acquisition due diligence, negotiations and commercial activities.

Key risks are the potential exposure to poor results from our operated and non-operated drilling programme, low returns from other capital projects, poor exploration results, or the lack of performance of any material acquisition. During the year, in response to the commodity price fall and coronavirus, the operated drilling rig programme was temporarily suspended for six months. Also, the hedge programme continued to take advantage of any market strength to meet internal commodity price targets.

(ii) Acquisition integration

Any acquisition or sale of interests in producing assets will affect our production volumes and revenues. The extent of the impact largely depends on the mix of assets acquired or sold.

In 2020, we worked to efficiently integrate the business acquired from ConocoPhillips UK. This involved designing and deploying a single 'end-state' organisation, operating model processes and reporting, IT architecture and office solutions. We expect this to complete in 2H 2022.

The key risks are lack of proper expertise, planning, poor decision-making and not staying on schedule, which could result in material deficiencies in cost, timing and quality of the integration programme.

This is mitigated by providing a correctly resourced integration team supported by functional expertise and external

consultants. They are overseen by the Board and reviewed daily by senior management.

(iii) Compliance

Chrysaor must follow a variety of written laws, regulations, policies and procedures. The risks of non-compliance are inappropriate behaviour, breach of legal requirements, punitive fines and penalties, and significant damage to Chrysaor's reputation and ability to operate.

We mitigate these risks with a Compliance Programme, awareness programmes, leadership reviews and initiatives, self-certification via annual reviews, gift and hospitality and conflict of interest registers, plus contractual provisions and reviews with vendors.

(iv) Stakeholder relations

Our stakeholders include equity shareholders, debt providers, joint venture operators and partners, regulatory authorities, employees, vendors and non-governmental organisations. Without continued good stakeholder relations, our safety, technical and financial status, asset performance and reputation may be compromised or damaged. We therefore take an open approach to our stakeholder relationships and maintain a respectful and positive approach throughout.

*Signpost: for more on stakeholder relations see the **Governance and Compliance report** section 9*

b. Operational

(i) Safety

Operational safety management in the oil and gas industry is subject to comprehensive regulation and legal requirements, which

we consider to be the minimum standard. We also have our own rules that employees and contractors must comply with. Major accidents can be due to geological and seismic uncertainties, uncontrollable production events, infrastructure damage and spills of hydrocarbons and pollutants. Events could result in injuries or fatalities, damage to assets or the environment, reputational damage, loss of operating cashflow and punishments or fines.

There is always a risk that people make poor decisions that may compromise safety. However, we expect our procedures and regular engagement on safety and safe ways of working will lead to continuing improvements. We emphasise the importance of safety in our induction programmes, through our daily field verification across our operations and by promotion of our Life Saving Rules. Our leadership team foster a culture of safety, compliance and event reporting to enable continuous learning. Our Business Management System (**BMS**) contains operational policies, standards, guidelines and procedures which promote workplace safety, and specialist standards and procedures. We also have incident and emergency response plans and appropriate insurance policies.

*Signpost: for more information on people, safety and wellbeing, see **Sustainability** section 8*

(ii) Disruption to production

Our oil and gas reserves and production volumes, and therefore revenue, may be lower than estimated or expected because many of the estimating assumptions made are beyond our control.

Most of our production to onshore terminals flows through two main third-party pipelines and we have some fields that load sales cargoes offshore. Any damage could result in production curtailments, as could adverse unplanned events. These could significantly affect operating cashflow.

In mitigation, our production portfolio is well diversified. It is split between 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 loading systems. We also have business interruption insurance policies.

A key risk is unplanned shutdowns due to the lack of key staff as a result of the coronavirus, leading to asset integrity issues or equipment failure on the Group's platforms and pipelines. During the year, a major shutdown on the FPS was deferred to 2021. This caused the rescheduling of significant activity on our operated platforms into 2021, increasing the risk of unplanned outages. While safety critical and essential work was still carried out this change of plan increased the risk of unplanned outages. In addition, if the commodity price remains low, over-supply may lead to a lack of storage and ultimately force the shut-in of fields.

(iii) Asset performance and drilling results

Chrysaor operates across all asset life-cycle phases and is subject to the inherent risks and results of drilling, production operations initiatives and commodity prices making discoveries economic. Programmes can be capital intensive and inherently uncertain in their outcome. The impact of poor drilling results can lead to little or no commercial success, leading to exploration write-offs or impairment of the producing assets and the corresponding adverse cashflow effects. Likewise, within the production phase, asset and turnaround plans may not be as successful as anticipated and reservoir performance may naturally decline or vary from estimates.

We mitigate for this by ensuring high-quality well design for our drilling programmes and with good planning for our turnaround work programmes. This is supported by high-quality technical and geoscience analysis and evaluation of the opportunities and value.

The key risks are exposure to the potential for poor performance from either operated or non-operated drilling activity. During the year, Chrysaor had planned to have five rigs operating in the UK and Norway, but this was reduced due to the commodity price reductions and coronavirus risk.

(iv) Cyber security

Advances in technology can pose both competition and cyber risks. Cyber security threats can cause business interruption and result in reputational damage, financial loss and the potential exposure of commercially sensitive or privacy related information.

To protect against cyber-attacks, we have invested in technologies, services and people to mitigate the risk. Our processes and procedures adhere to industry best practices, and we provide mandatory information security training for all personnel. We also use industry-leading cyber-security vendors to carry out regular training, penetration tests, threat hunting, physical security awareness sessions and security testing of our business-critical systems.

There is a potential increased security risk due to the integration of an acquired business and working from home due to the coronavirus pandemic. To reduce this risk, we continued to work to ensure our cyber capabilities continued to be fit for the future.

(v) UK departure from the European Union (EU)

While Chrysaor could have been affected by the political, economic and business conditions that result from the UK departure from the EU (**Brexit**), we carefully evaluated the outcome and expect minimal impact.

c. Financial

(i) Commodity prices and foreign exchange

The prevailing price of crude oil and gas significantly affects our operations as well as the potential profitability of our oil and gas reserves estimates. This can lead to an impairment of property, plant and equipment, including exploration and evaluation assets. Crude oil and gas prices have historically been volatile, dependent upon the balance between supply and demand, and particularly sensitive to global production levels.

Insufficient surplus operating cashflow or lack of debt capacity caused by this will constrain our ability to invest in new activities that sustain the life cycle of assets and future production.

Our subsidiaries work in pounds sterling, US dollars and Norwegian krone. To mitigate exposure to movements in exchange rates, wherever possible we hold financial assets and liabilities in currencies that match the functional currency of the relevant entity. Our results are therefore affected primarily by changes in the US dollar/pounds sterling exchange rate.

Our financial risks are mitigated through our diversified portfolio of assets, across operators, infrastructure and hydrocarbon streams. Hedging programmes are required under minimum RBL facility hedging requirements. There are also physical delivery contracts and additional discretionary hedging programmes available. We manage foreign exchange by cash management processes limiting exposure to surplus currencies.

For 2020, we hedged a significant proportion of our production. This helped protect us against the adverse economic effects of commodity price falls and coronavirus impacts. We look to maintain or increase hedged production volumes when commodity price conditions allow. Given the commodity price falls, we decided to reduce a significant proportion of our 2020 capital expenditure programme and reduced operating expenses to cover existing and safety critical operations. At the same time, we deferred discretionary spending.

(ii) Cash flow, liquidity and funding

Chrysaor has access to liquidity and funding from three main sources: (i) debt and equity from shareholders; (ii) debt funding in the banking and capital markets and (iii) operating cashflow from our production assets which is dependent on commodity prices. We continually work to optimise our capital structure and corresponding cost supported by proceeds from disposals.

The potential funding risk is that if certain conditions arise, funding may become restricted, and reduce investment opportunities in discretionary projects, or create debt servicing issues. Further, if investment returns are less than expected there may be the need for further funding requirements, or curtailment of operations. We also expect climate change to have an impact on access to funding as investors and lenders increasingly look at our strategy and credentials for energy transition.

To mitigate these risks, we ensure balanced access to all funding sources, supported by hedging programmes to safeguard a proportion of future cash flows. We have a strict planning cycle and capital-allocation programme to ensure investment to the appropriate levels. Our performance reporting and forecasts help with asset and portfolio management. For climate change,

we expect lenders to reflect in the cost and level of funding, companies that have appropriate energy and carbon strategies.

The key risks were that commodity prices might fall, costs would increase, or poor operational performance would restrict capital investment and acquisition capability.

(d) Climate change policies, legislation and regulation

We expect climate change policies, legislation and regulation to increase and accelerate, which will increase associated costs, as well as potentially limit the investment capital available. Companies need to demonstrate energy transition and carbon reduction strategies to support their social licence to operate. International agreements or domestic regulations to reduce or limit emissions will require additional expenditure, the magnitude and timescale which is uncertain. Further implications may be that funding to meet climate change targets will reduce the capacity to seek and develop new hydrocarbons or invest in acquisitions, or an accelerated cessation of production resulting in asset impairments.

Our energy and carbon strategy intends to ensure we meet our obligations for emissions and power consumption. The strategy presents key performance metrics aimed at supporting the 30 percent reduction target in annual absolute operated-asset CO₂ emissions by 2025 and a 50 percent reduction by 2028. Long term, our aim is to be net-zero across our business.

Group annual emissions targets are adopted considering the production forecasts and the delivery of projects sanctioned from the hopper of emissions reductions opportunities. Around 90 percent of the carbon dioxide emitted from Chrysaor's operated assets is from gas turbines used to power our assets and compression of export production, with a further 10 percent attributed to the flare.

Our energy transition initiatives have seen a progressive reduction in emissions over the last three years. We aim to achieve our targets by:

- reducing power demand
- optimising gas turbine efficiency
- minimising methane emissions and reducing flaring
- exploring links to renewable energy and

power onshore and converting our gas-driven equipment to electric drive, and

- seeking opportunities for carbon capture and storage.

We are investing in leading industry projects, plant re-specification and replacement and access to low carbon energy sources. Current efficiency optimisation and emissions reduction projects include gas turbine filter upgrades, compressor anti surge optimisation and re-staging of a condensate pump and compressor to match load demand.

We recognise the electrification of our operated assets as having considerable potential to achieving our CO₂ reduction targets and established a project team to review the potential for our operated assets to receive low-carbon off-platform power in the future.

Chrysaor continues to collaborate with stakeholders, industry bodies and partners to identify and implement solutions to produce hydrocarbons in the most environmentally sustainable and efficient way.

(e) Coronavirus

Coronavirus had the potential to significantly affect our business if personnel became ill and unavailable to work, or if the supply chain was restricted to any significant degree. This could potentially have led to the shutdown of platforms and the loss of production to ensure workforce safety.

We took early action to mitigate the effect of the pandemic and continued to perform well in 2020. In March, we suspended operated drilling activity for six months before resuming in September. We prioritised the safety and wellbeing of our workforce, ensuring adherence to relevant Government legislation and guidance. We are continuing to prioritise and manage the recovery phase to ensure all our facilities are ready to support our increase in offshore activity.

We continue to follow UK, Scottish and Norwegian Government guidance and to provide support to our employees to mitigate the impact. Our BCT and CMT monitor developments, provide guidance and have contingency plans in place to manage continued operations and our business.

8. Sustainability

Sustainability starts with responsibly running a safe, efficient and profitable business. Chrysaor carries out its activities responsibly, for the long-term benefit of investors and society.

Recognising that responsible conduct is linked to business success, we have made our commitment to the environment and community an integral part of our strategy. From ensuring people's safety, security and wellbeing, to acting against the challenges of climate change and strengthening integration into local communities.

Our aim is to create value for all stakeholders in accordance with key global standards and strong corporate governance.

We are also committed to the United Nations Sustainable Development Goals, which provide a comprehensive, internationally agreed framework to pursue and support meaningful development.

Our strategies and guiding principles of sustainability aim to:

- maintain high standards of ethical conduct
- uphold people's safety and wellbeing
- minimise environmental impact
- focus on carbon efficiency
- promote sustainable development goals
- partake in industry-wide collaborative efforts

Building upon the positive aspects of our existing values and ways of working, we continue to integrate ESG into our overall strategy.

(i) People

Our company culture is based on our values, good working relationships and open engagement with our workforce. We systematically identify our stakeholders and engage with them regularly. This helps us to better understand any potential

risks that could pose a threat to achieving our business objectives, and to develop appropriate responses.

Vision, values and culture

Our vision is to create a market leading North European E&P company that we and our stakeholders can be proud of. Our Core Values and Business Principles reinforce a positive and supportive company culture centred around employee engagement, learning and development, performance management and reward.

We are proud of the way we do business and the way we treat our business partners and stakeholders. We have developed a vision and a set of core values and business principles which reinforce our positive and supportive company culture. 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. At the heart of everything Chrysaor does are four values – integrity, innovation, passion and safety.

Our culture is based on a community of empowered and passionate people who deliver our Business Principles through our shared Core Values. We work hard to set our people up for success, through on-boarding and diverse employee engagement processes.

Our aim is to have an open and direct culture of employee engagement where our people are involved, committed and empowered to make a strong contribution to our success.

All teams, whether offshore or onshore, have direct access to our leadership team, who aim to listen and respond honestly,

clearly and quickly. Communication within the organisation is seen as a two-way process; actively seeking out and listening to feedback and taking actions where required, is integral to the business.

Safety and wellbeing

The safety and wellbeing of those who work for and with us is of paramount importance. We promote and adhere to a safety culture where nothing is so urgent or important that it cannot be done safely and in an environmentally responsible manner. We compromise neither the health and safety of people, nor the environment, in pursuit of commercial activity.

Working together, we maintain and progressively improve a safe system and place of work, both onshore and offshore. The top priority, which is fundamental to everything we do is to protect all our colleagues by preventing a major accident. We manage the risk of this by adhering to management systems and processes designed to assure process safety and asset integrity.

Our Lifesaving Rules provide straightforward guidance to individuals on how to protect themselves and their colleagues while engaged in activities with the highest potential risk.

We develop and implement progressive HSEQ and learning approaches that result in continuously improved performance. We use HSEQ data analytics to identify trends at enterprise and asset level, so all levels of the organisation can take focused preventative action. The leadership team routinely review leading and lagging process safety, occupational and environmental performance indicators. We focus on

the value of our near-miss reporting, identification of weaknesses and generating appropriate organisational responses, along with effective learning.

We have two independently run HSEQ management reviews each year to assess performance and meet the requirements of International Standards ISO9001 and ISO14001, and of the UK Health and Safety Executive (HSE) document HS(G)65. Our CEO chairs these reviews, which provide an opportunity for open discussion between operational leadership, offshore personnel and functional HSEQ staff on performance, areas for improvement and future approaches. The board of directors review organisational HSEQ performance and progress. In addition, we support HSEQ performance with a broad-ranging HSEQ audit and assurance programme.

Through our workplace wellbeing programme, we also provide resources that focus on physical, financial, social and mental wellbeing. We continue to strengthen our resilience by training mental-health first aiders.

Diversity and inclusion

Chrysaor ensures diversity and equality are established as part of all our policies and processes. We aim to recruit, retain and promote staff based on competence and regardless of age, disability, gender, marriage and civil partnership, pregnancy and maternity, race, religion and belief, and sexual orientation.

Pay equality

We conduct analysis across our business to ensure men and women are being paid equally for the same, or similar work. We review decisions on bonus, recognition and salary increments regularly to ensure equality across gender groups.

Training

The complex nature of our assets, their offshore location and the combustibility of hydrocarbons and other materials used, means it is imperative all our people are fully trained, competent and equipped to carry out their jobs safely and effectively.

Employee engagement

We aim to have an open culture of employee engagement where our people are involved and encouraged to make a strong contribution to our success. We work hard to set our people up for success, through inductions and diverse employee-engagement processes. We encourage open and ongoing communication between employees and managers. We keep employees informed about wider company issues using several formal and informal communication mechanisms, including 'town hall' meetings, safety representative meetings, an employee forum and performance reviews.

Ethics and integrity

The highest standards of integrity are fundamental to behaviour in the workplace, where we tolerate no form of bribery, corruption, misconduct or wrongdoing in our business dealings, and ensure compliance with all relevant laws.

(ii) Planet

Climate response

Our world faces the challenge of meeting the increasing demand for affordable, reliable and safe energy, while at the same time reducing levels of carbon dioxide and greenhouse-gas emissions. Chrysaor sees the energy demands of the world as an opportunity to do things differently.

We are taking steps across our business to reduce emissions and align to UK Government targets of net-zero carbon. We have identified initiatives to reduce our carbon footprint by making changes and upgrades to existing plant, and on new technologies to lower emissions further on our operated assets towards a net-zero target.

Just under half of our production today is natural gas. Not only is this the cleanest form of hydrocarbon to supply energy to the UK, but it also has a much lower carbon intensity than LNG gas imports. This is crucial for the UK's energy transition to net-zero.

Our operated assets emit less than one million tonnes of carbon dioxide a year and we have been working hard to reduce our impact. Our aim is to achieve a 30 percent

reduction in the direct emissions from our operated assets by 2025, with a further 20 percent reduction by 2028. Long term, our aim is to be net-zero across our business.

Taking steps to lower emissions

- Efficiency – we are moving towards producing our hydrocarbons in the most environmentally sustainable and efficient way we can.
- Low-carbon sources – we are exploring the potential for low or zero-carbon energy supplies to power our assets.
- Innovation – we are investing in early stage projects to enable hydrogen production, together with removing and offsetting emissions through CCS.

Our early investment in the development of the Acorn carbon capture and hydrogen project is also an example of our carbon reduction and transformative energy strategy.

In 2020, Chrysaor submitted licence applications for storing CO₂ in the depleted Viking and Victor gas reservoirs in the SNS area. These applications are in support of the V Net Zero Project, which aims to transport and store CO₂ from the Immingham cluster on Humberside. The capture, compression and conditioning of CO₂ will be performed by the Humber Zero project, a coalition of industry partners. V Net Zero is aligned to our energy transition strategy and may play an important role in bringing low-carbon infrastructure to Humberside, the UK's most carbon-intensive industrial region.

We recognise the electrification of our CNS assets as having considerable potential to achieving our CO₂ reduction targets. In 2020, we established a project team to develop the scope required for each of our operated assets to receive low-carbon off-platform power by 2025.

We also recognise that the oil and gas industry must collaborate to tackle the global energy challenge. We have therefore partnered with several UK operators and service companies to support a new Net Zero Solutions Centre in Aberdeen. The centre's objective is to accelerate the development and implementation of new technologies to decarbonise offshore operations. This is in support of the Industry's Roadmap, which aims to develop the UKCS as the first net-zero oil and gas basin globally by 2035.

Energy and Emissions Reporting

	2020	2019	
Scope 1 Direct Emissions:			
Gross operated static combustion activity			
Offshore Combustion	tCO ₂ e	950,602	480,240
	kWh	4,275,483,333	-
Onshore Combustion (Diesel only)	tCO ₂ e	22	479
	kWh	88,350	-
	m ³	8	176
Grid-sourced Onshore Gas Consumption	tCO ₂ e	438	216
	kWh	2,381,777	804,082
Scope 2 Indirect Emissions:			
Grid sourced electricity consumed by the organisation's onshore office facilities			
Grid-sourced Electricity Consumption	tCO ₂ e	1,060	416
	kWh	4,547,560	1,628,531
Emissions Summary			
Cumulative summary (Scope 1 and Scope 2 Emissions and Scope 1 intensity)			
Total Emissions (Scope 1 & Scope 2)	tCO ₂ e	952,122	481,352
	kWh	4,282,501,020	-
Operated Emissions Intensity Ratio (Scope 1 excludes grid sourced gas)	tCO ₂ e/mboe	19.1	21.3

Scope 1 represents gross operated static combustion activity excluding mobile emissions sources (vessels, helicopters, drilling and decommissioning)

Scope 2 represents national grid sourced power consumed by the organisation's onshore office facilities

Chrysaor's energy and carbon reporting has been provided as Scope 1 and Scope 2 emissions as required under environmental reporting guidelines for large unquoted companies. The emissions from onshore and offshore activities associated with the acquired business have been included. The additional installations acquired in 2019 explain the increase in Scope 1 emissions between 2019 and 2020, in addition to improved asset uptime in comparison to 2019. The reduction in onshore diesel is due to the demolition of Theddlethorpe Gas Terminal was the responsibility of a third-party contractor from February 2020.

A key measure for Chrysaor in baselining its business is the carbon intensity of our operated production. This is measured as the mass of CO₂ released per thousand barrels of oil equivalent produced (tCO₂/mboe). This was 19.1 tCO₂/mboe in 2020 (2019: 21.3 tCO₂/mboe). This is based

on operational control and reflects all production that passes through our operated offshore installations.

Environmental management

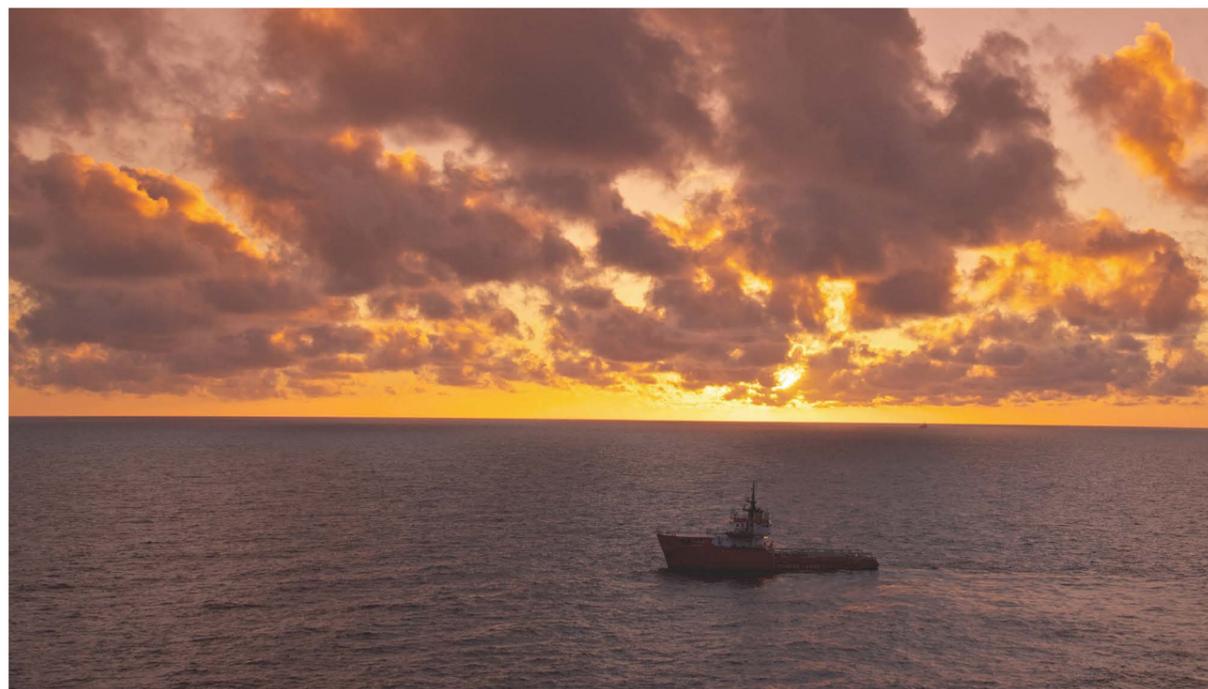
We aim to manage our operations so as not to cause harm to the environment, as enacted in our Health, Safety and Environmental Policy. We have Environmental Management Systems in place certified to ISO standard 14001:2015.

We apply these systems to manage the impact of our activities, products and services on the environment. They provide a structured approach for continuous planning, implementing, reviewing and improving environmental protection, and working towards increasing environmental sustainability.

We routinely select and employ the best

available technologies for our operations to ensure we protect our people and the environment. We have implemented proactive monitoring systems and processes across our assets, and we carry out extensive environmental baseline and impact assessments before and during any exploration or production activities, to ensure we protect the environment. The lifecycle of an operation, from licence application to restoration of the site, follows six stages where we carefully analyse all potential physical, ecosystem and socio-economic impacts.

- Licence application
- Seismic acquisition
- E&A drilling
- Field development
- Production
- Decommissioning



Biodiversity

We have a duty of care to comply responsibly with the biodiversity protection laws and regulations where we operate. We seek to reduce and mitigate our impact on biodiversity and natural habitats by identifying key environmental sensitivities, conservation objectives and taking steps to mitigate any potential environmental impacts of our proposed activities.

(iii) Prosperity

We strive to avoid any potential negative impacts of our operations and to maximise our positive impacts on the prosperity of the communities where we operate. We are proud to support the communities where we work and to contribute to charitable cause and social initiatives.

Community engagement

We share the wider benefits of our work by supporting the local communities, investing in education, developing skills and encouraging enterprise. Community relationships play a vital daily role in connecting our organisation with something that is greater than itself.

In 2020, our community engagement was affected by coronavirus restrictions, but we continued to support staff in their fundraising efforts, with match-funding as part of our company Wellbeing programme.

We also saw the impact coronavirus was having on the fundraising abilities of charities and, at year end, made donations to charities close to our operations, including Aberdeen Cyrenians, Maggie's Aberdeen, Charlie House, Centrepoint London, Evelina London (children's hospital) and the Red Cross in Oslo. We also supported several local food banks and encouraged our staff to raise funds for charities of their choice during lockdown.

Chrysaor donated money to NHS Grampian genetics laboratory to purchase a ThermoFisher Scientific Flex instrument for use in coronavirus testing. RNA extraction is the first part of the coronavirus test. This important process can be time-consuming, which limits the number of tests possible. The instrument purchased provides a high throughput automated work solution for the extraction of viral RNA for detecting coronavirus. This equipment has increased the efficiency of coronavirus testing in the area allowing NHS Grampian to potentially

test 1,000 samples a day with minimal staff time. The equipment will also be used in ongoing cancer research.

Transparency disclosure

Chrysaor aims for prompt disclosure and transparency in all tax matters and has met all statutory requirements for this. This includes the disclosures and submissions made to comply with the requirements of the Extractive Industry Transparency Initiative (EITI), Country-by-Country Reporting (CBCR) and the 2014 Reports on Payments to Government Regulations (PTG), which implemented the requirements of the EU's Accountancy and Transparency Directives into UK law.

UK Companies Act 2006 – Miscellaneous Reporting Regulations - Voluntary Section 172 (S172 statement)

We have chosen to include an S172 statement to illustrate our ongoing commitment to our stakeholders. This also lays the foundations for a number of Group companies, which meet the qualifying conditions for reporting.

How our Board engages with stakeholders

The Board considers and discusses information from across the organisation to help it understand the impact of our operations, and the interests and views of our stakeholders. It reviews strategy, financial and operational performance, as well as information covering areas such as key risks, legal and regulatory compliance. This information is provided to the Board through reports sent in advance of each Board meeting, and through in-person presentations.

The Board acknowledged the need to balance the contrasting and, at times, conflicting interests of various stakeholder groups, whilst focusing on the Company's purpose, values and strategic priorities in key decision-making.

We set out below how the directors have had regard to the matters set out in S172(1) (a)-(f) of the Companies Act 2006 when discharging their duties, and the effect of that on certain decisions they have taken.

Internal stakeholders

Workforce - Our onshore and offshore workforce have direct access to the leadership, who listen and respond honestly, clearly and promptly. Regular communication is provided through several media platforms, to ensure employees can easily access company information and any developments. In response to the coronavirus pandemic, the Company mobilised its CMT and BCT, whose priority has been to ensure the ongoing safety of the workforce and continuing operations. Regular virtual meetings have allowed the CEO to talk directly to employees and answer their questions. This has provided a valuable platform for communicating Board decisions to the workforce. Such workforce engagement played a key role in the Board's decision, during the early phases of the coronavirus pandemic, to reduce the level of work across all assets to maintain steady production and continuing safe operations.

External stakeholders

Shareholders - Shareholders are represented by their nominated Board members. There is regular and effective communication and provision of relevant, timely information to shareholders for

the purposes of strategic and business decision-making. This includes in relation to the budget and business plan, M&A opportunities, and other matters affecting the broader, long-term strategic direction of the Company.

Lenders - Chrysaor works with all financing partners to realise our strategic objectives, and we adhere to the reporting requirements of our debt facilities. We also deliver an annual presentation to our lenders, encouraging interaction, input and feedback from them to ensure we factor their concerns and interests into decisions that might affect our debt position.

Regulators - We inform regulators of major business changes. The requirements to provide a safe onshore and offshore working environment are contained in the BMS. This houses our mandatory policies, standards, guidelines and procedures and allows us to meet the requirements of International Standards ISO9001 and ISO14001. We also work with regulators to provide feedback on various issues and industry-wide topics. This ensures regulator guidance is appropriately informed, relevant and balanced, while also enabling the Board to reflect the latest regulatory views in their decisions.

Joint venture partners, suppliers and customers - Joint operating agreements require regular operational and technical meetings to manage and review asset-performance plans. We also host meetings with vendors and contractors to discuss

ways of working, and we hold quarterly HSEQ forums with a view to ensuring continuous improvement. We also regularly review contract performance alongside our corporate customers and consider any improvements. This continuous engagement occurs at many levels and ensures the Board is well-positioned to make informed decisions that consider the viewpoint of all interested parties and have regard of the need to foster our business relationships.

Government and environmental groups - We carry out lobbying activities through our membership of various trade groups including Oil and Gas UK (OGUK). We ensure we interact with Government departments and environmental groups honestly and openly and continue to work hard to understand and report the impacts of our operations.

Corporate Governance

9. Governance and Compliance

Chrysaor has applied the Wates Corporate Governance Principles for Large Private Companies as an appropriate framework for disclosure of our corporate governance arrangements. We set out below how we applied these principles during 2020.

1. Purpose and leadership

The Board has developed an effective governance framework, which is supported by the Company's core values and business principles. These come together to ensure successful delivery of our strategy and performance for the long-term benefit of all stakeholders.

*Signpost: for more information, see **Sustainability** section 8*

2. Board composition

The experience of our Board is diverse, with a wide range of knowledge and functional skills across the exploration, production and financial industries. Their composition provides for a balanced, independent and accountable approach to the strategy of the business.

*Signpost: for a biography of each Board member, see **Our Board** section 10*

The Chairman is responsible for the Board effectiveness, and ensures members have the necessary and timely information to facilitate meaningful and constructive discussion. The Board considers the number of Board members to be appropriate for the current size and nature of our business.

3. Director responsibilities

The Board has a collective responsibility for governance and achieving long-term success for the Company on behalf of its shareholders, while having regard to the interests of other stakeholders.

*Signpost: for stakeholder engagement, see the **S172 Statement** section 8*

The Board receives comprehensive, high-quality and timely information monthly and in advance of Board meetings, covering all aspects of the Group's business. At meetings, the Board reviews performance, approves strategy, and determines key policies for the effective operation of the business in an ethical and legally compliant manner. Many strategically important matters are reserved for the Board, as set out in the Subscription and Shareholders' Deed relating to the Company. We continue to maintain and develop our internal controls environment under the custody of appropriate function heads. This is subject to review by the internal audit function based on a Board agreed work programme.

4. Opportunity and risk

The Board reviews opportunities to generate long-term value both through regular Board meetings and as part of the annual budget and three-year business plan. Executive Directors discuss the nearer-term opportunities at monthly operational performance meetings, covering cost control, optimising capital investment and revenue cashflow management.

The Board-approved plans demonstrate that the Company has a highly diversified and cash-generative portfolio that can sustain it in value-generating capital investment plans and the ability to repay debts as they fall due.

The Board reviews the key risks affecting the Group regularly, with the help of the

internal audit function, and oversees risk management generally. This includes creating a rigorous control framework, containing several key internal and external governance policies that mitigate our risk exposure.

*Signpost: for more on the internal control framework, see **Risk Management** section 7*

5. Remuneration

The Board is responsible for setting remuneration for the Executive Directors and leadership team. This is reviewed annually and benchmarked bi-annually using independent external reviews to ensure employees are paid on an appropriate, fair and market-rate basis. The Company's remuneration structure consists of rewards dependent on role and experience and provides incentive structures aligned with its long-term strategy, culture and values. The remuneration structures are transparent and balanced for all employees.

6. Stakeholders

Stakeholders are a key focus in Chrysaor's core values and business principles. We believe doing the right thing in a professional but caring, respectful and honest way promotes and creates an open organisation that stakeholders can trust. Therefore, regular engagement with all stakeholders to create and preserve value, and manage risk, is a key priority.

*Signpost: for stakeholder engagement, see the **S172 Statement** section 8*

10. The Board



Linda Cook
Non-Executive Chairman

Linda Cook is Non-Executive Chairman. She is also Managing Director and a member of the Executive Committee of ELG Global Energy Partners, and Chief Executive Officer of Harbour Energy. She 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 the company, she held positions including Chief Executive Officer of Shell Gas & Power (London and The Hague); Chief Executive Officer of Shell Canada Limited (Calgary); Executive Vice President Strategy & Finance for Global Exploration & Production (The Hague); and various U.S. Exploration & Production management, operational and engineering roles. She received a B.S. in Petroleum Engineering from the University of Kansas and is currently a Trustee for the University's Endowment Association, a member of the Society of Petroleum Engineers and a Director on the Board of Bank of New York Mellon.



Phil Kirk
Chief Executive Officer

Phil Kirk is Chief Executive Officer of the Chrysaor Group. After qualifying as a chartered accountant with Ernst & Young in 1991, he joined Hess in 1996 where he served a variety of roles including Head of Finance, North West Europe. In 2002, he set up CH4 Energy with two ex-colleagues where he was joint Managing Director. CH4 acquired and operated the Markham field and associated satellites on the UK/Dutch median line. After selling CH4 to Venture Production in 2006, he founded Chrysaor in 2007 and has led the Group since then. He has been a member of the Board of Oil and Gas UK since 2013 and a past Co-chair. Phil is a Fellow of the Energy Institute.



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. He 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. He has extensive knowledge and experience of energy debt and equity capital markets. He led the financing for both Chrysaor's \$3.8 billion acquisition of a material portfolio of UK assets from Shell and the \$2.675 billion acquisition of ConocoPhillips UK upstream business. His knowledge in this area is key, as the Group looks to finance future growth activities.



Mark Brown
Non-Executive Director

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



Steve Farris
Non-Executive Director

G. Steven Farris is a Non-Executive Director. He served as Chairman and Chief Executive Officer of the Apache Corporation with operations in the United States, Canada, the UK sector of the North Sea, Egypt, and Australia. He 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. He 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, he was vice President, Finance and Business Development, of Terra Resources, a subsidiary of Sempra Energy.



Andrew Jamieson
Non-Executive Director

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



R. Blair Thomas
Non-Executive Director

R. Blair Thomas is a Non-Executive Director. He is also 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 he was a Group Managing Director and a member of the Board of Directors of TCW Asset Management Company. Prior to joining EIG in 1998, he 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.



Terence Jupp
Non-Executive Director

Terence Jupp is a Non-Executive Director. He is also Chief Operating Officer for Harbour Energy. He has more than 30 years of international experience in the upstream oil and gas industry and has held numerous executive positions. Most recently, he was Chief Operating Officer for CASA Exploration. Prior to this, he was Vice President, International Operations for Anadarko Petroleum, served with Kerr-McGee Oil & Gas as Vice President for International Exploration and Production, Vice President and Managing Director for the UK North Sea, Vice President for US Onshore Exploration & Production and Director of Deepwater Development for the Gulf of Mexico. He is a graduate of Texas A&M University with a Bachelor of Science degree in Petroleum Engineering and is a Registered Professional Engineer in the State of Texas. He serves on the Board of Directors of Dril-Quip Inc. (NYSE: DRQ).



Benjamin Vinocour
Non-Executive Director
(appointed 3 November 2020)

Benjamin Vinocour is a Managing Director of EIG and the Chief Corporate Development Officer and General Counsel of Harbour Energy Limited. He has been with EIG in various roles since 2010. Previously, he was at Latham and Watkins LLP in Washington, DC where he was an energy and private equity finance lawyer. He received a B.A. in Political Science and History from Cornell University and a J.D. cum laude from the University of Michigan Law School.

Harbour Energy proposed directors

The merger with Premier is expected to complete at the end of March 2021. At this point, the Group will be renamed Harbour Energy plc and the following will become the directors for the new Board.

Linda Cook	Chief Executive Officer
Phil Kirk	President; Chief Executive Officer, Europe
R. Blair Thomas	Chairman
Alexander Krane	Chief Financial Officer
Simon Henry	Senior Independent Non-Executive Director
Anne Marie Cannon	Independent Non-Executive Director
G. Steven Farris	Non-Executive Director
Alan Ferguson	Independent Non-Executive Director
Andy Hopwood	Independent Non-Executive Director
Margareth Øvrum	Independent Non-Executive Director
Anne L. Stevens	Independent Non-Executive Director

11. Regulatory Compliance

All assets operated by Chrysaor are regulated by the Offshore Safety Directive Regulator (**OSDR**), a partnership between the HSE and the Offshore Petroleum Regulator for the Environment and Decommissioning (**OPRED**), relating to health, safety and environmental matters.

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

Chrysaor is responsible for providing a safe system and place of work at its onshore and offshore facilities, which we achieve by applying our BMS. Conforming to the BMS, as demonstrated through audit and other assurance activities, remains the principal means for us to ensure compliance with our statutory duties, business goals and objectives.

 Signpost further details are available in **Key Performance Indicators** section 4

Directors' Report and Financial Statement

12. Directors Report

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

Board of directors

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

Linda Cook	Non-Executive Chairman
Phil Kirk	Chief Executive Officer
Andrew Osborne	Chief Financial Officer
Mark Brown	Non-Executive Director
Bob Edwards	Non-Executive Director
Steve Farris	Non-Executive Director
Andrew Jamieson	Non-Executive Director
R. Blair Thomas	Non-Executive Director
Terence Jupp	Non-Executive Director
David Powell	Non-Executive Director (resigned 3 November 2020)
Benjamin Vinocour	Non-Executive Director (appointed 3 November 2020)

The Board and directors reflect the governance and shareholder structure under the Shareholders' Agreements dated 30 January 2017.

Howard Landes, Secretary

Results and dividends

Chrysaor's loss for the year after taxation amounted to \$778.4 million (2019: profit \$218.8 million). The directors do not recommend the payment of a dividend (2019: \$nil).

Financial instruments

We finance our 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 our operating activities. Financial instruments can give rise to foreign currency, interest rate, credit, commodity price and liquidity risk. Information on these risks is set out above in the Strategic Report and note 24 to the financial statements.

During the year, we continued to enter into a combination of fixed-price physical sales contracts and cash-settled financial commodity derivatives, to manage the price risk associated with our future underlying oil and gas revenues. Back-to-back agreements were put in place for the derivative contracts with subsidiaries of the Group, Chrysaor Limited, Chrysaor North Sea Limited, Chrysaor Production (U.K.) Limited and Chrysaor Petroleum Company U.K. 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. The Group also maintains directors' and officers' liability insurance cover, the level of which is reviewed annually.

Share capital

Details of the Company's issued share capital, together with details of any movement in the issued share capital during the year, are shown in note 25 to the consolidated financial statements.

Disabled employees

Chrysaor aims to provide an optimal working environment to suit the needs of all employees, including those of employees with disabilities. Our policy is that people with disabilities should be given fair consideration for all vacancies against the requirements for the role. Where possible, we make reasonable adjustments in job design and provide appropriate training for employees who become disabled.

Employees

Chrysaor is committed to creating diversity and inclusion in the workplace. We provide equal opportunities in employment, safeguarding and promoting a working environment where all employees can make best use of their skills, and where decisions are based on merit. Chrysaor also provides training for existing and future managers on unconscious bias, diversity and inclusion. This ensures they are not influenced by factors such as disability, gender, race, ethnic origin, colour, marital status, nationality, religion, sexual orientation or age.

i *Signpost for further details on people engagement including how employees are consulted with, systematically provided with information on matters of concern to them and made aware of the financial and economic factors affecting Chrysaor's performance see **Sustainability** section 8*

Stakeholder engagement

Stakeholder engagement, including with employees, is of paramount importance since these relationships are key to our success and sustainability.

i *Signpost for further details on stakeholder engagement see **Governance and compliance** section 9 under the adoption of the Wates Principles*

i *Signpost for further details on stakeholder engagement see **Sustainability** section 8*

Streamlined energy and carbon reporting (SECR)

The requirements of the SECR are included in **Sustainability** section 8. These disclosures describe the methodologies applied and the emissions and energy usage together with the selected intensity ratio for 2020 and prior year.

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 IFRS as adopted by the 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 IFRS as adopted by the EU 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 IFRS as adopted by the EU
- 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 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

The merger with Premier continues per deal plans and is expected to complete around 31 March 2021, with the admission of the new group to the London Stock Exchange.

In February 2021, the Board approved a partial redemption of the D Loan Notes of \$135.7 million, for which the payment was made on 15 March 2021.

Going concern

The directors have adopted a going-concern basis of accounting for preparing the financial statements. The analysis used by the directors in adopting the going concern basis considers the various plans and commitments of the Group as well as various sensitivity analyses. Cash-flow forecasts and sensitivities are prepared and reviewed by management regularly, with sensitivities typically run for changes in commodity prices and asset performance. These models and sensitivities provide assurance

that Chrysaor will be able to meet its cash flow and funding requirements, as well as adhere to financial and liquidity covenants. Chrysaor's management forecasts show that for the next 12 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.

Other information

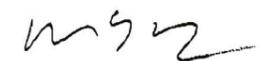
Chrysaor made no political contributions or any share buybacks in the year.

Disclosure of information to the auditors

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

Independent auditors

Provided completion of the merger with Premier then, following a tender process, a resolution to appoint new group auditors will be put to the members at the Annual General Meeting.



On behalf of the Board
Andrew Osborne (Director)
17 March 2021

Independent Auditors' Report to the Directors of Chrysaor Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, Chrysaor Holdings Limited's group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated balance sheet as at 31 December 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Context

Chrysaor Holdings Limited is an independent oil and gas company operating principally in the UK Continental Shelf (UKCS). The group has grown significantly in recent years through several acquisitions - the most recent of which was the purchase of ConocoPhillips' exploration & production business in the UK, which was completed in September 2019. For accounting purposes, the Group is structured into ten reporting units (components). Our audit was planned to take into account the recent acquisition, the trading performance for the year, the prevailing oil & gas commodity market conditions and the impact of coronavirus on the results and activities of the Group.

Overview

Audit scope

- We conducted a full scope audit on two components and the audit of specified balances and classes of transactions on a further four components.
- The scope of work at each component was determined by its proportion of the Group's total asset and risk profile.
- The six in scope components accounted for approximately 98 percent of total assets and 94 percent of total revenue.

Key audit matters

- Implications of coronavirus outbreak and prevailing oil & gas market conditions.
- Impairment to development and producing assets and goodwill.

Materiality

- Overall materiality: US\$102 million (2019: US\$113.5 million) based on 1 percent of Total Assets.
- Performance materiality: US\$76.5 million.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to International Financial Reporting Standards (IFRSs) and UK & Norway tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to potential management bias in accounting estimates. Audit procedures performed by the engagement team included:

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

- Identifying and testing journal entries with specific focus on entries within unusual account combinations in response to the risk of management override.

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Impairment to development and producing assets and goodwill is a new key audit matter this year. The purchase price allocation of ConocoPhillips UK Business and Accounting for Decommissioning Liabilities, which were key audit matters in the previous year, are no longer included because of the fact that the ConocoPhillips UK acquisition completed in September 2019 and there have been no significant fair value adjustments recognised during 2020. Accounting for Decommissioning liabilities was a key audit matter in 2019 due to the increased audit effort required in auditing the decommissioning liability in relation to the newly acquired interests.

Key audit matter	How our audit addressed the key audit matter
<p>Implications of coronavirus outbreak and current oil & gas market conditions</p> <p>The coronavirus outbreak has affected businesses and the global economy throughout the year.</p> <p>Management have considered the impact of the pandemic on current and future operations by using the knowledge obtained through trading since March 2020. In particular, management has addressed the Group's ability to continue as a going concern by preparing detailed cash flow forecasts for 2021 and 2022, including modelling severe but plausible downside scenarios.</p> <p>Management has concluded that the Group expects to have sufficient financial resources to meet their obligations as they fall due, for at least twelve months from the date of this report. The Directors have therefore prepared the group financial statements on a going concern basis, with no material uncertainty.</p> <p>Management also considered the impact of coronavirus on the Group's financial statements. The decrease in oil and gas prices, particularly in Q2 2020, was, in part, as a result of the pandemic. A resulting impairment has been booked to goodwill and certain development and production assets. Management identified no other material impact on the financial statements.</p> <p>Given the continued uncertainties and potential impact on the global economy, we consider this to be a key audit matter.</p>	<p>We have reviewed the cashflows that support management's going concern assumption and have assessed if they appropriately considered the impact of the current economic conditions related to coronavirus and pressures on commodity prices. We evaluated management's severe but plausible downside scenario analysis through challenge of the underlying assumptions including the following:</p> <ul style="list-style-type: none"> • The level of reduction in the forward commodity price curves used in the scenarios. • The period of such reduction and the timing and rate of any anticipated price recovery. • Consequences for the Group's operation and production in light of the change in market environment. • The ability of the workforce to carry out duties, including potential restrictions on movements. • The availability of drawdown facilities and future production volumes hedged. <p>We examined supporting evidence for the reduction in non-essential capital expenditure including an assessment of the Directors' ability to take actions to implement these mitigations if necessary.</p> <p>We met with Operations, Human Resources and HSEQ to validate with external teams that the procedures described had been implemented.</p> <p>On the basis of the procedures above, we evaluated the level of forecast liquidity and agreed with management's assessment that there would likely be a sufficient level of liquidity throughout the period to the end of December 2022.</p> <p>We reviewed management's disclosures in the financial statements in relation to the impact of coronavirus and are satisfied that they are consistent with the assessment performed.</p> <p>Our conclusions relating to going concern are set out in the 'Conclusions related to going concern' section below.</p>
<p>Risk of impairment to development and producing assets and goodwill</p> <p>During the year, impairment charges of \$644 million was recognised in relation to certain development and producing assets and impairment charges of \$411 million was recognised in respect of the Group's goodwill. Refer to note 12 and note 10 respectively for further details.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • A walkthrough was performed of management's process undertaken in order to determine the appropriate estimate. This included understanding and evaluating the relevant control activities performed by management. • The appropriateness of the method used was assessed and we assessed whether management's test methods had changed from the previous year. • We obtained management's assessment of the cash generating units to determine if the level at which goodwill and the development and production assets are assessed for impairment is appropriate, in accordance with the criteria of IAS36.

Key audit matter	How our audit addressed the key audit matter
<p>Risk of impairment to development and producing assets and goodwill (continued)</p> <p>In determining the fair value of a cash-generating-unit, management are required to make judgements in relation to assumptions such as:</p> <ul style="list-style-type: none"> • long term commodity prices; • reserves estimates and forecast production volumes; • cost assumptions; and • the appropriate discount rates <p>In 2020, management identified the significant reduction in commodity prices as a specific indicator of impairment to the development and production assets.</p> <p>In accordance with IAS36, management performs an assessment of the carrying value of goodwill at least at each balance sheet date, regardless of whether there are indicators. The reduction in commodity prices elevates the risk of potential impairment charges.</p> <p>We determined impairment of goodwill and the development and production assets to be a key area of audit focus due to the significant carrying values and the nature of judgements required to be made by management in order to estimate the fair value of the assets.</p> <p>Impairment charges have been recognised in relation to goodwill and certain development and production assets</p>	<ul style="list-style-type: none"> • The models used by management to determine the carrying value of development and production assets were tested, including testing the integrity of the model for mechanical and mathematical accuracy; internal consistency and challenging where inconsistencies were identified. Where applicable we agreed underlying data used within the model back to source documentation. • Management's assumptions including long-term commodity prices, discount rate and foreign exchange rates used were tested for reasonableness. We engaged our valuations specialists to form an independent view on the appropriateness of these assumptions through determining acceptable ranges, with reference to third party source data and comparing this to the assumption applied by management. We have ensured the rates are consistent with those applied in other accounting estimates. • Tax specialists were engaged to assess the reasonableness of the tax assumptions and cash flows. • We assessed the objectivity and competence of management's internal specialists who were involved in determining the recoverable amount of assets. • The forecast proved and probable reserves were compared to the Competent Person's Report that was provided by an external third party and variances were challenged. • Forecast operating expenditure and capital expenditure was assessed against historical expenditure. We challenged management on unexpected or unusual trends included within the forecast. • Reconciled the abandonment expenditure in relation to structures and wells already in place to our testing in relation to the decommissioning model. • Challenged management on the inclusion of cashflows in relation to energy transition to assess whether they are in line with their existing commitments. • Verified the cost estimates for non-operated assets to the information received from the operator. • Assessed the expected cessation of production dates to confirm they were consistent with the assumptions applied by management within other areas such as the decommissioning provision. • Assessed the disclosures within the financial statements in accordance with the requirements of IAS36. <p>Based on the work performed, we concluded that the carrying value of goodwill and the production and development assets has been appropriately calculated.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

Chrysaor is a UK North Sea large independent oil and gas group with a diversified portfolio of interests in production hubs in the UK and Norwegian North Sea. The group is structured, for accounting purposes, into ten reporting units (components). We performed full scope audit procedures on two components and the audit of specified balances and classes of transactions on a further four components.

The six components where we performed audit work accounted for approximately 98 percent of total assets and 94 percent of total revenue. All audit procedures were performed by the UK group engagement team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	US\$102 million (2019: US\$113.5 million)
How we determined it	1 percent of Total Assets
Rationale for benchmark applied	We believe that Total Assets is the primary measure used by the stakeholders in assessing the performance of the group and is a generally accepted benchmark on which to set materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated to the in-scope components was between \$75 million and \$90 million.

We use performance materiality to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality to an appropriately low level. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US\$76.5 million for the group financial statements.

In determining the performance materiality, we considered a number of factors including the history of misstatements, risk assessment, aggregation risk and the effectiveness of controls and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above \$5.1 million (2019: \$5.7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's ability to continue to adopt the going concern basis of accounting included:

- Testing of the assumptions included within the cash-flow forecasts which represent management's view of the most likely scenario considering the various plans and commitments of the Group and the levels of headroom required;
- Assessment of management's view of a 'severe but plausible' downside scenario, including consideration of the forecast headroom, associated covenant position and access to liquidity;
- Assessing the alternative courses of action and cost savings measures that could be implemented if required.

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

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

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

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

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine

is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group'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 to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also

agreed to describe our audit approach, including communicating key audit matters.

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors as a body for fulfilling your obligation in accordance with our engagement letter dated 18 June 2020 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

Partner responsible for the audit

The engagement partner on the audit resulting in this independent auditors' report is Kevin Reynard.

PricewaterhouseCoopers LLP
Chartered Accountants
Aberdeen
17 March 2021

Consolidated Income statement

For the year ended 31 December	Note	2020 \$000	2019 \$000
Revenue	4	2,413,939	2,357,789
Other income	4	23,911	8,995
Revenue and other income		2,437,850	2,366,784
Cost of sales		(1,827,503)	(1,516,498)
Gross profit		610,347	850,286
Impairment of property, plant and equipment	12	(643,977)	-
Impairment of goodwill	10	(411,435)	-
Provision for onerous service contracts	21	(18,475)	-
Exploration and evaluation expenses	5	(13,173)	(15,033)
Exploration costs written-off	5	(160,806)	(222)
Remeasurements	5	(1,211)	2,974
Loss on disposal of exploration and evaluation asset		(55)	-
General and administrative expenses		(48,584)	(75,488)
Operating (loss)/profit	5	(687,369)	762,517
Finance income	7	7,463	31,611
Finance expenses	7	(297,841)	(338,570)
(Loss)/profit before taxation		(977,747)	455,558
Income tax credit/(expense)	9	199,308	(236,711)
(Loss)/profit for the financial year		(778,439)	218,847

Consolidated Statement of comprehensive income

For the year ended 31 December	2020 \$000	2019 \$000
(Loss)/profit for the financial year	(778,439)	218,847
Items that may be classified to income statement in subsequent periods		
Fair value losses on cash flow hedges	(173,685)	(53,722)
Tax credit on cash flow hedges	71,302	21,625
Share based payments ⁽¹⁾	11,800	10,905
Currency exchange differences	27,366	99,787
Total other comprehensive (loss)/income for the financial year, net of tax	(63,217)	78,595
Total comprehensive (loss)/income for the financial year	(841,656)	297,442
Total comprehensive (loss)/income attributable to:		
Equity holders of the parent	(841,656)	297,442

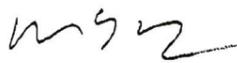
(1) Only item above not expected to be reclassified subsequently to the income statement.

Consolidated Balance sheet

As at 31 December	Note	2020 \$000	2019 \$000
Assets			
Non-current assets			
Goodwill	10	990,053	1,404,334
Other intangible assets	11	454,063	430,528
Property, plant and equipment	12	6,522,429	7,679,606
Right of use assets	13	132,206	221,223
Other receivables	17	3,577	2,604
Other financial assets	23	90,371	202,230
Total non-current assets		8,192,699	9,940,525
Current assets			
Inventories	16	160,528	146,881
Trade and other receivables	17	461,352	474,118
Other financial assets	23	222,588	193,888
Cash and cash equivalents	18	445,377	573,182
Total current assets		1,289,845	1,388,069
Total assets		9,482,544	11,328,594
Equity and liabilities			
Equity			
Share capital	25	71	71
Share premium		910,020	910,020
Cash flow hedge reserve		80,264	176,123
Costs of hedging reserve		9,765	16,289
Currency translation reserve		103,971	76,605
(Accumulated losses)/retained earnings		(36,795)	729,844
Equity		1,067,296	1,908,952
Total equity		1,067,296	1,908,952
Non-current liabilities			
Borrowings	22	2,160,312	2,205,322
Provisions	21	4,020,768	3,766,739
Deferred tax	9	1,031,381	1,649,290
Trade and other payables	20	29,825	52,375
Lease creditor	13	80,820	145,403
Other financial liabilities	23	52,490	3,663
Total non-current liabilities		7,375,596	7,822,792
Current liabilities			
Trade and other payables	20	540,339	676,436
Borrowings	22	21,546	617,363
Lease creditor	13	60,120	79,525
Provisions	21	190,167	183,081
Current tax liabilities		153,314	-
Other financial liabilities	23	74,166	40,445
Total current liabilities		1,039,652	1,596,850
Total liabilities		8,415,248	9,419,642
Total equity and liabilities		9,482,544	11,328,594

The notes on pages 51 to 92 form part of these financial statements.

The financial statements on pages 46 to 92 were approved by the Board of Directors on 17 March 2021 and signed on its behalf by:


Andrew Osborne (Director)
 Company No. FC027988; UK Establishment No. BR009700

Consolidated

Statement of changes in equity
for the year ended 31 December 2020

	Share capital \$000	Share premium \$000	Cash flow hedge reserve \$000	Costs of hedging reserve \$000	Currency translation reserve \$000	(Accumulated losses) / Retained earnings \$000	Total equity \$000
As at 1 January 2019	22	234,801	219,678	4,831	(23,182)	500,092	936,242
Profit for the financial year	-	-	-	-	-	218,847	218,847
Issue of new shares	49	675,219	-	-	-	-	675,268
Share based payments	-	-	-	-	-	10,905	10,905
Other comprehensive income	-	-	(43,555)	11,458	99,787	-	67,690
At 31 December 2019	71	910,020	176,123	16,289	76,605	729,844	1,908,952
Loss for the financial year	-	-	-	-	-	(778,439)	(778,439)
Share based payments	-	-	-	-	-	11,800	11,800
Other comprehensive loss	-	-	(95,859)	(6,524)	27,366	-	(75,017)
At 31 December 2020	71	910,020	80,264	9,765	103,971	(36,795)	1,067,296

Consolidated

Statement of cash flows

For the year ended 31 December	Note	2020 \$000	2019 \$000
Net cash inflow from operating activities	26	1,373,362	1,518,661
Cash flows from investing activities			
Expenditure on exploration and evaluation assets		(88,333)	(82,634)
Expenditure on property, plant and equipment		(457,648)	(447,643)
Expenditure on non-oil and gas intangible assets		(52,124)	-
Proceeds from sale of exploration and evaluation asset		20	-
Expenditure on business combinations and acquisitions net of cash acquired		(12,495)	(2,255,236)
Interest received		7,463	9,453
Net cash outflow from investing activities		(603,117)	(2,776,060)
Cash flows from financing activities			
Repayment of borrowings	22	(784,338)	(200,000)
Proceeds from new financing arrangement	22	-	29,600
Proceeds from share issue		-	4
Proceeds from new borrowings	22	170,358	1,843,275
Lease payments	13	(60,543)	(20,598)
Redemption of loan notes	22	(77,140)	-
Interest paid and bank charges		(147,832)	(143,914)
Net cash (outflow)/inflow from financing activities		(899,495)	1,508,367
Net (decrease)/increase in cash and cash equivalents		(129,250)	250,968
Effect of exchange rates on cash and cash equivalents		1,445	5,903
Cash and cash equivalents at 1 January		573,182	316,311
Cash and cash equivalents as at 31 December	18	445,377	573,182

Notes to the Financial Statements

1. Corporate information

The consolidated financial statements of Chrysaor Holdings Limited for the year ended 31 December 2020 which comprise the parent company, Chrysaor Holdings Limited (the "Company") and all its subsidiaries (the "Group"), were authorised for issue in accordance with a resolution of the directors on 17 March 2021. Chrysaor Holdings Limited is a private company limited by share capital incorporated in the Cayman Islands and domiciled in the United Kingdom. The Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman.

The Group's principal activities are the acquisition, exploration, development and production of oil and gas reserves on the UK and Norwegian Continental Shelves.

2. Accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union. The analysis used by the directors in adopting the going concern basis considers the various plans and commitments of the Group as well as various sensitivity analyses. Further details are within the Directors' Report

The Group financial statements are presented in US Dollars (USD) and all values are rounded to the nearest thousand dollars (\$'000) except when otherwise stated.

The Financial Statements have been prepared on the historical cost basis, except for certain financial assets and liabilities (including derivative financial instruments) which have been measured at fair value.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020. All accounting policies have been applied consistently other than where new policies have been adopted.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2020. Subsidiaries are those entities over which the Group has control. Control is achieved where the Company has the power over the subsidiary, is exposed, or has rights to variable returns from the subsidiary and has the ability to use its power to affect its returns. All subsidiaries are 100 percent owned by the Company and therefore the Group does not have any non-controlling interests.

All intercompany balances have been eliminated on consolidation.

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 two geographical areas presently being the UK North Sea and the Norwegian North Sea.

Pensions

Contributions made to defined contribution pension schemes are recognised in the income statement in the period in which they become payable.

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
- 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.

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 income statement. Non-monetary assets and liabilities denominated in foreign currencies are measured at historic cost based on exchange rates at the date of the transaction and subsequently not retranslated.

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 is 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.

Notes to the financial statements for the year ending 31 December 2020 (continued)

Business combinations (continued)

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, as disclosed in note 10, is reviewed for impairment at least annually by assessing the recoverable amount of the cash generating units (CGU's) to which the goodwill relates. Where the carrying amount of the CGU and related goodwill is higher than the recoverable amount of the CGU, an impairment loss is recognised in the income statement. Impairment losses relating to goodwill cannot be reversed in future periods. Consistent with the reporting segment, the CGU for the purposes of the goodwill test is the UK Continental Shelf (UKCS).

Intangible assets - exploration and evaluation assets

Exploration and evaluation expenditure is accounted for using the successful efforts method of accounting.

(a) Pre-licence costs

Pre-licencing costs are expensed in the 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 the income statement. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties within development and production assets.

(c) Exploration and evaluation costs

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

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

When proved reserves of oil 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 farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out

arrangements but re-designates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

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

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

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

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is provided using the unit of production method based on proven and probable reserves. When there is a change in the estimated total recoverable proven and probable reserves of a field, that change is accounted for 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. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement.

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that

was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. All other day-to-day repairs and maintenance costs are expensed as incurred.

Fixtures and fittings and office equipment

Fixtures and fittings and office 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

Intangible assets

Intangible assets, which principally comprise IT software, are carried at cost less any accumulated amortisation. These assets are amortised on a straight-line basis over their useful economic lives of up to three years.

Impairment of non-current assets (excluding goodwill)

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

Impairment indicators

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

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

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

Measurement of recoverable amount

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

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

Notes to the financial statements for the year ending 31 December 2020 (continued)

Financial instruments

a. Financial assets

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

Financial assets held at amortised cost

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

Default events could include:

- payment default, i.e. the failure to pay principal or interest when it falls due for payment

- prospective default, when payment is not yet due, but it is clear that it will not be capable of being paid when it does fall due
- covenant default, when the borrower fails to keep a promise (a covenant) that it has made in the contract.

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

Credit impaired financial assets

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

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

b. Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Borrowings and loans

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

Derecognition

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

c. Derivative financial instruments

Derivative financial instruments are initially recognised and subsequently re-measured at fair value. Certain derivative financial instruments are designated as cash flow hedges in line with the 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 the income statement.

Cash flow hedges

The effective portion of gains and losses arising from the remeasurement of derivative financial instruments designated as cash flow hedges are deferred within other comprehensive income and subsequently transferred to the income statement in the period the hedged transaction is recognised in the income statement. 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 the income statement. Hedge ineffectiveness could arise if volumes of the hedging instruments are greater than the hedged item of production, or where the credit worthiness of the counterparty is significant and may dominate the transaction and lead to losses.

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.

Cash flow hedge reserve

The cash flow hedge and cost of hedging reserves represents gains and losses on derivatives classified as effective cash flow hedges. Upon the designation of option instruments as hedging instruments, the intrinsic and time value components are separated, with only the intrinsic component being designated as the hedging instrument and the time value component is deferred in Other Comprehensive Income as a 'cost of hedging'.

Currency translation reserve

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

Share based payment

The Group has applied the requirements of IFRS 2 Share-based Payment. The Group has share-based awards that are equity and cash settled as defined by IFRS 2. The fair value of the equity settled awards has been determined at the date of grant of the award allowing for the effect of any market-based conditions. For cash-settled awards, a liability is recognised for the goods or service acquired. This is measured initially at the fair value of the liability. The fair value of the liability is subsequently remeasured at each balance sheet date until the liability is settled, and at the date of settlement, with any changes in fair value recognised in the income statement.

Inventories

Hydrocarbon inventories are stated at net realisable value with movements recognised in the income statement. 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.

Leases

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

Right-of-use assets and lease liabilities arising from a lease are initially measured on a present value basis reflecting the net present value of the fixed lease payments and amounts expected to be payable by the Group assuming leases run to full term. The Group has applied judgement

to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly impacts the amount of lease liabilities and right-of-use assets recognised.

The lease payments are discounted using the Group's incremental borrowing rates of between 4.2 percent and 5.9 percent, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

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

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

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

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

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

Notes to the financial statements for the year ending 31 December 2020 (continued)

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

Provisions for liabilities

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

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

Trade payables

Initial recognition of trade payables is at fair value. Subsequently they are stated at amortised cost.

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 income statement.

ii. Deferred tax

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

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

Revenue from contracts with customers

Revenue from contracts with customers is recognised when the Group satisfies a performance obligation by transferring a good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. Revenue associated with the sale of crude oil, natural gas, and natural gas

liquids (NGLs) is measured based on the consideration specified in contracts with customers with reference to quoted market prices in active markets, adjusted according to specific terms and conditions as applicable according to the sales contracts. The transfer of control of oil, natural gas, natural gas liquids and other items sold by the Group occurs when title passes at the point the customer takes physical delivery. The Group principally satisfies its performance obligations at this point in time.

Over/underlift

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

Interest income

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

Borrowing costs

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

New accounting standards and interpretations

The Group adopted new and revised accounting standards and interpretations relevant to its business and effective for

accounting periods beginning on or after 1 January 2020, including:

Amendments to IFRS 3: Definition of a business

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

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

Amendments to IAS 1 and IAS 8: Definition of material

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

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

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

Accounting standards issued but not yet effective

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

IFRS17 Insurance contracts

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

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

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

IBOR reform and the effects on financial reporting

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

Critical accounting judgements and estimates

The preparation of the Group'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.

Notes to the financial statements for the year ending 31 December 2020 (continued)

Judgements

- **Exploration and evaluation expenditure**

As at 31 December 2020, the Group held a balance of \$391.3 million (2019: \$425.3 million) relating to expenditure on unproved hydrocarbon resources within other intangible assets which represent active exploration and evaluation activities. 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 the income statement in the period when the new information becomes available.

Key sources of estimation uncertainty

- **Goodwill**

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

The recoverable amount of goodwill is based on estimates and assumptions, regarding in particular the expected market outlook (including future commodity prices) used for the measurement of cash flows, estimates of the volume of commercially recoverable

reserves and resources of oil and gas future production rates and costs to develop reserves and resources, and the determination of the discount rate. Any changes in these assumptions may have a material impact on the measurement of the recoverable amount and could result in adjustments to any impairment losses to be recognised.

See note 10 for further information.

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

- **Recoverability of oil and gas assets**

For impairment review purposes, the Group's oil and gas assets are analysed into cash-generating units (CGUs) as identified in accordance with IAS36. A review is carried out at each reporting date for any indicators that the carrying value of the Group's assets may be impaired. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value-in-use, then compared to the carrying value of the asset or CGU. The assessments of fair value less cost of disposal, generally referenced by the present value of the future net cash flows expected to be derived from production of commercial reserves, requires the use of estimates and assumptions on uncontrollable parameters such as long-term oil prices (considering current and historical prices, price trends and related factors), foreign exchange rates and discount rates.

The Group's estimate of the recoverable value of its assets is sensitive to commodity prices and discount rates. A change in the long-term price assumptions of 10 percent, an increase in the long-term foreign exchange rate of 4% and a 1 percent change in the post-tax discount rate are considered to be reasonably possible for the purposes of sensitivity analysis, the result of which can be found in notes 10 and 12.

- **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 percent increase in the cost estimates, and a 10 percent decrease in the discount rates used to assess the final decommissioning obligation, would result in increases to the decommissioning provision of approximately \$458 million and \$118 million respectively. This change would be principally offset by a change to the value of the associated asset unless the asset is fully depreciated, in which case the change in estimate is recognised directly within the income statement.

- **Climate change**

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

3. Segment information

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the Group's business segments, 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, and are split geographically

and managed in two regions, namely the UK North Sea and the Norwegian North Sea. The Norwegian business unit currently does not generate revenue or have any material operating income, and as such all revenues are attributable to the UK.

Information on major customers can be found in note 4.

	2020 \$000	2019 \$000
Income statement		
UK	(681,003)	772,820
Norway	(6,366)	(10,303)
Group operating (loss)/profit	(687,369)	762,517
Finance income	7,463	31,611
Finance expenses	(297,841)	(338,570)
(Loss)/profit before taxation	(977,747)	455,558
Income tax credit/(expense)	199,308	(236,711)
(Loss)/profit for the financial year	(778,439)	218,847
Balance sheet (segment assets)		
UK	9,433,252	11,296,039
Norway	49,292	32,555
Total assets	9,482,544	11,328,594
Balance sheet (segment liabilities)		
UK	(8,379,988)	(9,404,440)
Norway	(35,260)	(15,202)
Total liabilities	(8,415,248)	(9,419,642)

Notes to the financial statements for the year ending 31 December 2020 (continued)

Other information	2020 \$000	2019 \$000
Capital expenditure		
UK	539,236	545,953
Norway	17,001	5,670
Total capital expenditure	556,237	551,623
Depreciation, depletion and amortisation		
UK	1,221,573	916,603
Norway	530	412
Total depreciation, depletion and amortisation	1,222,103	917,015
Exploration and evaluation expenses		
UK	7,770	5,052
Norway	5,403	9,981
Total exploration and evaluation expenses	13,173	15,033

All exploration costs written-off of \$160.8 million (2019: \$0.2 million) relate to the UK business unit and primarily relate to acquisition expenditure relating to acreage which is considered less prospective.

4. Revenue and other income

Group	2020 \$000	2019 \$000
Crude oil sales	1,430,093	1,568,166
Gas sales	805,239	625,489
Condensate sales	138,360	145,501
Hydrocarbon revenue	2,373,692	2,339,156
Tariff income	24,160	13,972
Other revenue	16,087	4,661
Total revenue from production activities	2,413,939	2,357,789
Other income - IFRS16 lease accounting-partner recovery	23,911	8,995
Total revenue and other income	2,437,850	2,366,784

Revenue of \$1,624.6 million (2019: \$2,195.7 million) were from contracts with customers. This excludes realised hedging gains on crude and gas sales in the year of \$789.0 million (2019: \$162.2 million) and realised hedging gains of \$0.3 million on carbon emissions swaps (2019: nil).

Approximately 95 percent (2019: 97 percent) of the revenues were attributable to energy trading companies of the Shell group.

The revenues for 2019 reflect the three months of oil and gas production from the ConocoPhillips UK business following the acquisition described in note 15.

5. Operating profit

This is stated after charging/(crediting):

Group	2020 \$000	2019 \$000
Movement in over/under-lift balances and hydrocarbon inventories	(119,872)	26,249
Production, insurance and transportation costs	754,204	586,224
Depreciation of oil and gas assets (note 12)	1,168,938	889,226
Depreciation of non-oil and gas assets (note 12)	5,659	4,905
Amortisation of non-oil and gas intangible assets (note 11)	17,196	9,275
Depreciation of right of use oil and gas assets (note 13)	50,583	16,963
Depreciation of right of use non-oil and gas assets (note 13)	6,177	3,244
Amortisation of capacity rights (note 11)	1,749	2,097
Capitalisation of IFRS16 lease depreciation on oil and gas assets (note 13)	(28,199)	(8,695)
Impairment of property, plant and equipment (note 12)	643,977	-
Impairment of goodwill (note 10)	411,435	-
Onerous contract provision (note 21)	18,475	-
Share based payments expense	11,800	10,905
Exploration and evaluation expenditure	13,173	15,033
Exploration costs written-off (note 11)	160,806	222
Remeasurement of royalty valuation	1,300	(2,400)
Remeasurement of commodity price contingent consideration	-	7,199
Remeasurement of exploration contingent consideration	-	(7,773)
Remeasurement of acquisition completion adjustments	426	-
Remeasurement – gain on termination of lease (note 13)	(515)	-
Auditors' remuneration – audit of the financial statements	1,159	1,357
– other fees to auditors - taxation services	233	400
– other fees to auditors - transaction services	380	-

Notes to the financial statements for the year ending 31 December 2020 (continued)

6. Staff costs

	2020 \$000	2019 \$000
Wages and salaries	146,393	82,479
Social security costs	21,498	12,408
Pension costs	18,650	11,173
Other staff costs including benefits	32,975	20,031
	219,516	126,091

	2020 No.	2019 No.
Offshore based	373	206
Office and administration	676	357
	1,049	563

Staff costs above are recharged to joint venture partners or are capitalised to the extent that they are directly attributable to capital or decommissioning projects. The above costs include share-based payments to key management as disclosed in note 5.

Employment contracts are held by three subsidiaries of the Group, Chrysaor E&P Services Limited, Chrysaor Norge AS and from 1 October 2019, Chrysaor Production (U.K.) Limited.

All employees were engaged in the acquisition, exploration, development and production of oil and gas reserves.

The Group operates a defined contribution pension plan and the amounts charged to the income statement represent the contributions payable in the year.

7. Finance income and finance expenses

	2020 \$000	2019 \$000
Finance income		
Bank interest receivable	2,797	9,345
Other interest	4,666	22,266
	7,463	31,611
Finance expenses		
Interest payable on Reserves Based Loan and junior facilities	98,464	83,955
Interest payable on loan notes	25,385	69,767
Other interest	6,551	3,072
Lease interest	7,240	2,541
Foreign exchange losses	36,148	82,171
Bank and financing fees	36,137	39,272
Unwinding of discount on deferred consideration	93	80
Unwinding of discount on contingent consideration	-	83
Unwinding of discount on decommissioning and other provisions	87,823	57,629
	297,841	338,570

Bank and financing fees include an amount of \$17.0 million (2019: \$15.6 million) relating to the amortisation of transaction costs capitalised against the Group's long-term borrowings (note 22).

Net other interest includes a \$4.9 million charge (2019: \$19.7 million credit) which represents interest under a financing arrangement

(note 22) and \$0.7 million realised losses (2019: nil) on interest rate swaps.

Foreign exchange losses of \$36.1 million (2019: \$82.2 million) are net of \$3.9 million realised gains (2019: nil) on forward foreign exchange contracts.

Notes to the financial statements for the year ending 31 December 2020 (continued)

8. Directors' remuneration

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

Included above are the emoluments of the two Executive Directors of the Group. The payments made in lieu of pension contributions were made at the same rate as pension contributions made to employees. The other Directors who served during the year received no emoluments from Group companies in respect of their services.

The directors did not receive any other remuneration.

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

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

9. Income tax

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

	2020 \$000	2019 \$000
Current income tax expense:		
UK corporation tax	355,708	105,076
Overseas tax	(18,184)	(11,779)
Adjustments in respect of prior years	(1,938)	1,521
Total current income tax expense	335,586	94,818
Deferred tax (credit)/expense:		
UK corporation tax	(545,624)	155,234
Overseas tax	12,987	2,170
Adjustments in respect of prior years	(2,257)	(15,511)
Total deferred tax (credit)/expense	(534,894)	141,893
Tax (credit)/expense in the income statement	(199,308)	236,711

The tax (credit)/expense in the income statement is disclosed as follows:

Income tax (credit)/expense on continuing operations	(199,308)	236,711
	(199,308)	236,711

A reconciliation between total tax (credit)/expense 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 2020 and 2019 is as follows:

	2020 \$000	2019 \$000
(Loss)/profit before taxation	(977,747)	455,558
Group (loss)/profit before taxation at 40.0% weighted average (2019: 40.0%)	(391,099)	182,224
Effects of:		
Expenses not deductible for tax purposes	176,558	13,143
Interest not deductible for supplementary charge	7,576	9,544
Adjustments in respect of prior years	(4,195)	(13,990)
Movement in unrecognised deferred tax assets	17,346	29,231
Income not taxable	(5,675)	-
Impact of losses relieved at different rates	20,710	43,514
Investment allowance	(20,529)	(27,150)
Currency translation adjustment	-	195
Total tax (credit)/ expense reported in the consolidated income statement	(199,308)	236,711

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

Notes to the financial statements for the year ending 31 December 2020 (continued)

Deferred tax

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

	Accelerated Capital Allowances \$000	Abandonment \$000	Losses \$000	Fair value on derivatives \$000	Other \$000	Total \$000
As at 1 January 2019	(1,492,476)	587,264	257,611	(150,420)	29,275	(768,746)
Deferred tax (expense)	138,882	11,848	(255,651)	-	(36,972)	(141,893)
Comprehensive income/(loss)	(20,061)	15,647	-	21,625	5,044	22,255
Acquisition accounting	(1,790,753)	974,065	-	-	55,782	(760,906)
As at 31 December 2019	(3,164,408)	1,588,824	1,960	(128,795)	53,129	(1,649,290)
Deferred tax credit	519,060	25,830	125	-	(10,121)	534,894
Comprehensive income	-	-	-	71,302	-	71,302
Foreign exchange	(24,322)	26,039	194	414	1,274	3,599
Acquisition accounting	-	-	-	-	8,114	8,114
As at 31 December 2020	(2,669,670)	1,640,693	2,279	(57,079)	52,396	(1,031,381)

The Norwegian related tax losses are not expected to be recovered within the next twelve months. Companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim the tax value of any unused tax losses or other tax credits related to its offshore activities to be paid in cash (including interest) from the tax authorities when operations cease. Deferred tax assets that are based on offshore tax losses carried forward are therefore normally recognised in full. There is no time limit on the right to carry tax losses forward in Norway.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the tax assets can be utilised, under relevant tax law.

The Group has tax losses, mainly from non-ring fence activities, of \$192.5 million (2019: \$132.4 million), a portion of which may potentially be available for offset against future taxable profits. An associated deferred tax asset of \$37.3 million (2019: \$27.7 million) has not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group due to uncertainty of recovery. The Group has recognised a deferred tax asset of \$2.3 million (2019: \$2.0 million) in relation to tax losses only to the extent of anticipated future taxable profits.

The Group has not recognised a deferred tax asset of \$6.3m (2019: \$2.8m) in relation to accelerated capital allowances on the basis that these deferred tax assets will not be recoverable in the foreseeable future.

Changes in tax rate

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

10. Goodwill

Cost and net book value	2020 \$000	2019 \$000
At 1 January	1,404,334	493,084
Additions (note 15)	-	908,359
Impairment charge	(411,435)	-
Finalisation of 2019 business combination (note 15)	(5,302)	-
Currency translation adjustment	2,456	2,891
At 31 December 2020	990,053	1,404,334

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

The goodwill balance arose on the acquisition of the ConocoPhillips UK business which completed on 30 September 2019, the acquisition of UK North Sea assets from Shell which completed on 1 November 2017, and on the acquisition of additional equity in the Armada, Maria and Seymour fields from Spirit Energy, which completed on 1 June 2018.

Goodwill acquired through business combinations has been allocated to a single cash generating unit (CGU), the UK Continental Shelf (UKCS), and this is therefore the lowest level at which goodwill is reviewed.

Impairment testing of goodwill

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

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. At the year-end, the Group tested for impairment in accordance with accounting policy, and following changes to the Group's long-term commodity price assumptions for impairment purposes linked to the deterioration in the macroeconomic environment for the oil and gas industry, a goodwill impairment of \$411.4 million was recognised.

Determining recoverable amount

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

Key assumptions used in calculations

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

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

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

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

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

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

Notes to the financial statements for the year ending 31 December 2020 (continued)

Sensitivity to changes in assumptions used in calculations

The Group has run sensitivities on its long-term commodity price assumptions, which have been based on long range forecasts from external financial analysts, using alternate long-term price assumptions, foreign exchange rates and discount rates. These are considered to be reasonably possible changes for the purposes of sensitivity analysis. Sensitivity analysis indicates that a 10 percent reduction in the long-term oil and gas price deck applied in the

impairment test would result in a further impairment to goodwill of \$324.0 million, and a 10% increase in the long-term oil and gas price deck applied in the impairment test would result in a reduction to the goodwill impairment of \$355.6 million. A 1 percent increase in the discount rate would result in a further impairment to goodwill of \$100.4 million, and a 4% increase in the long-term foreign exchange rate assumption would result in a further impairment to goodwill of \$44.3 million.

11. Other intangible assets

Cost	Oil and gas assets \$000	Non-oil and gas assets \$000	Capacity rights \$000	Total \$000
At 1 January 2019	52,543	-	9,634	62,177
Additions	81,792	820	-	82,612
Additions from business combinations and joint arrangements (note 15)	325,880	-	-	325,880
Transfers to property, plant & equipment	(39,002)	-	-	(39,002)
Unsuccessful exploration written-off	(222)	-	-	(222)
Currency translation adjustment	4,262	-	374	4,636
At 31 December 2019	425,253	820	10,008	436,081
Reclassification of IT software from property, plant and equipment	-	39,153	-	39,153
At 31 December 2019 restated	425,253	39,973	10,008	475,234
Additions	90,069	50,217	-	140,286
Reduction in decommissioning asset (note 21)	(2,996)	-	-	(2,996)
Disposals	(75)	-	-	(75)
Transfers from property, plant & equipment	32,600	-	-	32,600
Unsuccessful exploration written-off	(160,806)	-	-	(160,806)
Currency translation adjustment	7,232	4,687	318	12,237
At 31 December 2020	391,277	94,877	10,326	496,480
Accumulated amortisation:				
At 1 January 2019	-	-	3,248	3,248
Charge for the year	-	-	2,097	2,097
Currency translation adjustment	-	-	208	208
At 31 December 2019	-	-	5,553	5,553
Reclassification of IT software from property, plant and equipment	-	16,077	-	16,077
At 31 December 2019 restated	-	16,077	5,553	21,630
Charge for the year	-	17,196	1,749	18,945
Currency translation adjustment	-	1,559	283	1,842
At 31 December 2020	-	34,832	7,585	42,417
Net book value:				
At 31 December 2020	391,277	60,045	2,741	454,063
At 31 December 2019	425,253	820	4,455	430,528

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

Non-oil and gas assets relate primarily to group IT software. In addition, there is expenditure on the Acorn project, a project focussed on carbon dioxide (CO₂) capture and storage which is planned to use existing technology to this new area of application that may help accelerate decarbonisation. Acorn project costs are held within intangible assets until an assessment of its economic commerciality is determined.

The capacity rights represent National Transmission System (NTS) entry capacity at Bacton and Teesside acquired as part of the business combination completed in 2017. These rights have a remaining useful life of two years and are amortised on a contractual volume basis.

On 1 January 2020, IT software costs at 31 December 2019 were reclassified from property, plant and equipment to non-oil and gas assets within intangible assets, with subsequent IT software costs incurred during 2020 also recorded as intangible assets in line with Group accounting policy.

12. Property, plant and equipment

Cost	Oil and gas assets \$000	Fixtures and fittings & office equipment \$000	Total \$000
At 1 January 2019	4,437,097	33,529	4,470,626
Additions	452,059	16,952	469,011
Additions from business combinations and joint arrangements (note 15)	4,248,567	7,518	4,256,085
Increase in decommissioning asset	24,062	-	24,062
Transfer from intangible assets	39,002	-	39,002
Currency translation adjustment	57,532	2,308	59,840
At 31 December 2019	9,258,319	60,307	9,318,626
Reclassification of IT software from property, plant and equipment	-	(39,153)	(39,153)
At 31 December 2019 restated	9,258,319	21,154	9,279,473
Additions	414,886	1,065	415,951
Transfers to intangible assets	(32,600)	-	(32,600)
Increase in decommissioning asset (note 21)	257,587	-	257,587
Currency translation adjustment	97,784	652	98,436
At 31 December 2020	9,995,976	22,871	10,018,847
Accumulated depreciation:			
At 1 January 2019	716,042	10,759	726,801
Charge for the year	889,226	14,180	903,406
Currency translation adjustment	7,873	940	8,813
At 31 December 2019	1,613,141	25,879	1,639,020
Reclassification of IT software from property, plant and equipment	-	(16,077)	(16,077)
At 31 December 2019 restated	1,613,141	9,802	1,622,943
Charge for the year	1,168,938	5,659	1,174,597
Impairment charge	643,977	-	643,977
Currency translation adjustment	54,237	664	54,901
At 31 December 2020	3,480,293	16,125	3,496,418
Net book value:			
At 31 December 2020	6,515,683	6,746	6,522,429
At 31 December 2019	7,645,178	34,428	7,679,606

Notes to the financial statements for the year ending 31 December 2020 (continued)

Property, plant and equipment (continued)

During the year, the Group recognised a net pre-tax impairment charge of \$644.0 million (post-tax \$386.4 million) within the income statement. This represents a write-down of property, plant and equipment assets of \$712.1 million offset by a pre-tax impairment credit of \$68.1 million in respect of reductions to decommissioning estimates on the Group's non-producing assets with no remaining net book value.

This arises primarily due to the reduction in our commodity price assumptions for impairment purposes to \$60 per barrel for crude oil and 40p per therm for natural gas rather than a fundamental change in the nature of the producing assets. These assumptions show a reduction compared to the \$65 per barrel for crude oil and 50p per therm used for the purchase price accounting for the acquisition of the ConocoPhillips business. Impairments on property, plant and equipment are reversible in the future.

In addition, we recorded a goodwill impairment charge of \$411.4 million in the period (2019: \$nil). This was also attributable to changes in the Group's assessment of long-term commodity prices and are not reversible in the future.

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

Key assumptions used in calculations

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

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

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

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

A reduction or increase in the long-term oil and gas prices of 10% are considered to be reasonably possible changes for the purpose of sensitivity analysis. Decreases

to the long-term oil and gas prices specified above would result in a further post-tax impairment of \$344.5 million. A 10 percent increase in the long-term oil and gas price deck would reduce the post-tax impairment charge by \$204.6 million. Considering the discount rates, the Group believes a 1 percent increase in the post-tax rate is considered to be a reasonable possibility for the purpose of sensitivity analysis. A 1 percent increase in the post-tax rate would lead to a further post-tax impairment of \$9.9 million, and an increase in the long-term foreign exchange rate assumption of 4%, which the Group believes to be a reasonable possibility, would result in a further impairment of \$100.8 million. The impairment was calculated as detailed above.

An increase in the decommissioning assets of \$257.6 million (2019: \$24.1 million) was made during the year as a result of both obligations and an update to the decommissioning estimates (note 21).

Further information on additions from business combinations and joint arrangements can be found in note 15.

Included within property, plant and equipment additions of \$416.0 million (2019: \$469.0 million) are associated cash flows of \$457.6 million (2019: \$447.6 million) and non-cash flow movements of \$41.6 million (2019: (\$21.4 million)), represented by a \$58.2 million movement in capital accruals (2019: (\$17.5 million)) less \$16.6 million of capitalised leased depreciation (2019: \$3.9 million).

On 1 January 2020, IT software costs at 31 December 2019 were reclassified from property, plant and equipment to non-oil and gas assets within intangible assets, with subsequent IT software costs incurred during 2020 also recorded as intangible assets in line with Group accounting policy.

13. Leases - right of use assets

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

	2020 \$000	2019 \$000
Right of use assets		
Land and buildings	54,917	58,092
Drilling rigs	75,631	159,945
Equipment	1,658	3,186
	132,206	221,223
Lease liabilities		
Current	60,120	79,525
Non-Current	80,820	145,403
	140,940	224,928

There were no additions to the right-of-use assets during the year (2019: \$226.4 million, including \$207.0 million from business combinations, see note 15). During the year, a lease contract in relation to a drilling rig, and equipment to support the rig, was terminated, resulting in a remeasurement gain of \$0.5 million (2019: nil).

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

	2020 \$000	2019 \$000
Depreciation charge of right of use assets		
Land and buildings	7,197	3,244
Drilling rigs	48,276	16,585
Equipment	1,287	378
	56,760	20,207
Capitalisation of IFRS16 lease depreciation		
Land and buildings	-	-
Drilling rigs	(27,369)	(8,580)
Equipment	(830)	(115)
Depreciation charge included within Consolidated Income Statement	28,561	11,512

Of the \$28.2 million (2019: \$8.7 million) capitalised IFRS16 lease depreciation, \$16.6 million (2019: \$3.9 million) has been capitalised within property, plant and equipment and \$11.6 million (2019: \$4.8 million) within provisions (note 21).

Lease interest (included in finance expenses – note 7)	7,240	2,541
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The total cash outflow for leases in 2020 was \$60.5 million (2019: \$20.6 million).

Notes to the financial statements for the year ending 31 December 2020 (continued)

14. Investments and amounts due from subsidiary undertakings

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

Name of Company	Country of incorporation	Main activity
Chrysaor E&P Limited	UK	Holding company
Chrysaor Production Holdings Limited (i)	UK	Holding company
Chrysaor Resources (UK) Holdings Limited (i)	UK	Holding company
Chrysaor E&P Finance Limited (i)	UK	Financing company
Chrysaor E&P Services Limited (i)	UK	Service company
Chrysaor North Sea Limited (i)	UK	Oil and gas
Chrysaor Limited (i)	UK	Oil and gas
Chrysaor CNS Limited (i)	UK	Oil and gas
Chrysaor Norge AS (i)	Norway	Oil and gas
Chrysaor Resources (Irish Sea) Limited (ii)	UK	Oil and gas
Chrysaor Marketing Limited (i)	UK	Oil and gas
Chrysaor Production Limited (iii)	UK	Holding company
Chrysaor Production (U.K.) Limited (v)	UK	Oil and gas
Chrysaor Petroleum Company U.K. Limited (iii)	UK	Oil and gas
Chrysaor (U.K.) Theta Limited (vii)	UK	Oil and gas
Chrysaor (U.K.) Alpha Limited (vi)	UK	Oil and gas
Chrysaor (U.K.) Beta Limited (xi)	UK	Oil and gas
Chrysaor Developments Limited (vi)	UK	Oil and gas
Chrysaor Petroleum Limited (vi)	UK	Oil and gas
Chrysaor (U.K.) Sigma Limited (viii)	UK	Oil and gas
Harbour Energy Developments Limited (formerly Chrysaor (Glen) Limited (vi)	UK	Dormant company
Chrysaor (U.K.) Zeta Limited (vi)	UK	Non-trading holding company
Chrysaor (U.K.) Eta Limited (x)	UK	Non-trading
Chrysaor (U.K.) Delta Limited (vi)	UK	Non-trading holding company
Harbour Energy Limited (formerly Chrysaor Supply & Trading Limited) (iii)	UK	Dormant company
Chrysaor Energy Limited (i)	UK	Non-trading
Chrysaor (U.K.) Lambda Limited (ix)	ROI	Dormant company
Chrysaor Investments Limited (vi)	UK	Dormant company
Harbour Energy Production Limited (formerly Chrysaor Production Oil (GB) Limited) (iv)	UK	Dormant company
Harbour Energy Services Limited (formerly Chrysaor Petroleum Chemicals U.K. Limited) (iv)	UK	Dormant company
Chrysaor (U.K.) Britannia Limited (vi)	UK	Dormant company

- (i) Held by Chrysaor E&P Limited
- (ii) Held by Chrysaor Resources (UK) Holdings Limited
- (iii) Held by Chrysaor Production Holdings Limited
- (iv) Held by Chrysaor Petroleum Company U.K. Limited
- (v) Held by Chrysaor Production Limited
- (vi) Held by Chrysaor Production (U.K.) Limited
- (vii) Held by Chrysaor (U.K.) Sigma Limited
- (viii) 98.04% held by Chrysaor Production (U.K.) Limited and 1.96% held by Chrysaor (U.K.) Delta Limited
- (ix) 99.999% held by Chrysaor (U.K.) Theta Limited and 0.001% held by Chrysaor (U.K.) Eta Limited
- (x) Held by Chrysaor (U.K.) Zeta Limited
- (xi) Held by Chrysaor (U.K.) Alpha Limited

The Company holds 100 percent of the share capital and voting rights in each of the companies above, unless otherwise stated.

All the subsidiaries are registered in England and Wales, with the exception of Chrysaor Norge AS, which is registered in Norway, and Chrysaor (U.K.) Lambda Limited, which is registered in the Republic of Ireland. The registered office of all subsidiaries noted above is Brettenham House, Lancaster Place, London, United Kingdom, WC2E 7EN, apart from Chrysaor Norge AS whose registered office is Haakon VII's gate 1, 4th Floor, 0161 Oslo, Norway, and Chrysaor (U.K.) Lambda Limited whose registered office is Riverside One, Sir John Rogerson's Quay, Dublin 2, Ireland.

15. Business combinations and acquisition of interests in joint arrangements

Business combinations during the year ended 31 December 2019

In April 2019, Chrysaor entered into an agreement to acquire the ConocoPhillips UK business for a headline consideration of \$2.675 billion.

The transaction completed on 30 September 2019 and adds two new operated hubs to Chrysaor's portfolio in the UK Central North Sea, Greater Britannia Area and J-Area, in addition to a non-operated interest in the Clair Field area. The fair values of the net identifiable assets acquired from the transaction are as follows:

	Total \$000
Exploration, evaluation and other intangible assets	325,880
Property, plant and equipment – oil and gas assets	4,248,567
Property, plant and equipment – non-oil and gas assets	7,518
Property, plant and equipment – right of use assets	206,978
Total fixed assets	4,788,943
Inventories	54,203
Cash	247,034
Trade and other receivables	223,884
Trade and other payables	(324,753)
Deferred tax	(752,869)
Provision for decommissioning	(2,408,211)
IFRS16 lease liabilities	(206,978)
Fair value of identifiable net assets acquired	1,621,253
Cash consideration	2,424,747
Additional completion adjustments	99,563
Total consideration transferred	2,524,310
Goodwill recognised	903,057
As reported at 31 December 2019	
Fair value of identifiable net assets acquired	1,613,139
Cash consideration transferred	2,430,049
Additional completion adjustments	91,449
Goodwill recognised at 31 December 2019	908,359
Movement in the year	
Fair value of identifiable net assets acquired (deferred tax)	8,114
Cash consideration	(5,302)
Additional completion adjustments	8,114
Adjusted Goodwill recognised at 31 December 2020	903,057

Notes to the financial statements for the year ending 31 December 2020 (continued)

Business combinations during the year ended 31 December 2019

In November 2019, \$38.2 million of additional completion adjustments were paid to ConocoPhillips US, representing the first of four annual payments to be made during 2019 to 2022.

Acquisition related costs of \$7.6 million were incurred during 2019 and recognised as an expense within General and Administrative costs.

The cash consideration was funded from existing cash resources and additional RBL funding of \$1.68 billion from the upsized \$3 billion debt facility.

The adjusted goodwill of \$903.1 million, which has arisen principally due to the requirement to recognise deferred tax on the difference between the assigned fair values and the tax bases of assets and liabilities acquired in a business combination, has been 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 were determined by reference to commodity forward price curves for the first three years following the acquisition date and, for subsequent years, based on a market consensus. None of the goodwill is deductible for corporation tax.

From the date of acquisition, the business contributed \$264.6 million of revenue and \$88 million loss before tax from continuing operations of the Group. Had the acquisition been affected at 1 January 2019, the business would have contributed revenue of \$1.0 billion in the year to 31 December 2019, and \$32.4 million of a loss towards profit before taxation.

In April 2019, Chrysaor entered into an agreement to acquire the ConocoPhillips UK business for a headline consideration of \$2.675 billion. Taking into account the interim period cashflows since the effective date of 1 January 2018 and conventional working capital adjustments, the price payable at completion of the acquisition was \$2.521 billion. During 2020, the fair value of net asset acquired increased by \$8.1 million due to a revised deferred tax

value at completion, with a corresponding increase to additional completion adjustments. Pursuant to a settlement agreement between Chrysaor and ConocoPhillips dated 31 December 2020, a reduction to cash consideration of \$5.3 million was received on 22 January 2021. Combined, these adjustments have resulted in a decrease to goodwill of \$5.3 million.

Chrysaor and ConocoPhillips are in dispute concerning certain adjustments to be made to the specified consideration of \$2.675 billion relating to Chrysaor's purchase of ConocoPhillips' UK oil and gas business in 2019. The dispute is due to be heard in the High Court of England and Wales in May 2021. If ConocoPhillips succeeds in the case, there will be no further payment to ConocoPhillips but, if Chrysaor succeeds in the case, it will be entitled to a refund in respect of overpaid consideration of approximately \$120 million.

16. Inventories

	2020 \$000	2019 \$000
Hydrocarbons	34,112	35,170
Consumables and subsea supplies	126,416	111,711
	160,528	146,881

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

Inventories recognised as an expense during the year ended 31 December 2020 amounted to \$3.3 million (2019: \$8.1 million). These expenses are included within production costs.

17. Trade and other receivables

	2020 \$000	2019 \$000
Trade debtors	189,532	186,593
Under-lift position	93,077	34,358
Other debtors	98,736	177,072
Prepayments	60,976	60,417
Corporation tax receivable	19,031	15,678
	461,352	474,118

Trade debtors are non-interest bearing and are generally on 20 to 30 days' terms. As at 31 December 2020, there were no trade receivables that were past due (2019: \$nil).

Other debtors mainly relate to amounts due from joint venture partners.

The carrying value of the trade and other receivables are equal to their fair value as at the balance sheet date. No provision for doubtful debts has been recorded as at 31 December 2020 or 31 December 2019.

Non-current	2020 \$000	2019 \$000
Other receivables	3,577	2,604
	3,577	2,604

18. Cash and cash equivalents

	2020 \$000	2019 \$000
Cash at bank and in hand	445,377	573,182

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. high-quality credit standing.

Notes to the financial statements for the year ending 31 December 2020 (continued)

19. Commitments

Capital commitments

As at 31 December 2020, the Group had commitments for future capital expenditure amounting to \$231.1 million (2019: \$420.5 million). 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.

20. Trade and other payables

	2020 \$000	2019 \$000
Current		
Trade payables	108,492	116,221
Overlift position	20,047	83,370
Other payables	105,698	40,970
Accruals	271,988	427,861
Deferred income	34,114	8,014
	540,339	676,436
Non-current		
Other payables	29,825	52,375
	29,825	52,375

Other payables, within both current, \$46.0 million (2019: \$19.9 million) and non-current \$24.4 million (2019: \$39.7 million) 'trade and other payables', includes the present value of additional completion payments payable to ConocoPhillips Company as part of the acquisition of the ConocoPhillips UK business. The amounts are payable in 3 further instalments between 2021 and 2022.

21. Provisions

	Decommissioning provision \$000	Other \$000	Total \$000
At 1 January 2019	1,468,044	7,690	1,475,734
Additions from business combinations and joint arrangements (note 15)	2,408,211	-	2,408,211
Additions	28,389	-	28,389
Changes in estimates – decrease to decommissioning asset	(4,327)	-	(4,327)
Remeasurements	-	(7,773)	(7,773)
Amounts used	(46,816)	-	(46,816)
Interest on decommissioning lease	(1,076)	-	(1,076)
Depreciation, depletion & amortisation on decommissioning right-of-use leased asset	(4,821)	-	(4,821)
Unwinding of discount	57,629	83	57,712
Currency translation adjustment	44,587	-	44,587
At 31 December 2019	3,949,820	-	3,949,820
Additions	29,948	18,475	48,423
Changes in estimates – increase to oil and gas tangible decommissioning assets	227,639	-	227,639
Changes in estimates – decrease to oil and gas intangible decommissioning assets	(2,996)	-	(2,996)
Amounts used	(142,035)	(5,429)	(147,464)
Amounts recovered from prior owner	3,997	-	3,997
Depreciation, depletion & amortisation on decommissioning right-of-use leased asset	(11,608)	-	(11,608)
Interest on decommissioning lease	(1,414)	-	(1,414)
Unwinding of discount	87,823	-	87,823
Currency translation adjustment	55,898	817	56,715
At 31 December 2020	4,197,072	13,863	4,210,935

Classified within:	Non-current liabilities \$000	Current Liabilities \$000	Total \$000
At 31 December 2020	4,020,768	190,167	4,210,935
At 31 December 2019	3,766,739	183,081	3,949,820

Notes to the financial statements for the year ending 31 December 2020 (continued)

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 40 years, the majority of which are anticipated to be incurred between the next 15 to 25 years. Decommissioning provisions are discounted at a risk-free rate of between 1.2 percent and 1.9 percent (2019: 2019: 2.3 percent and 2.8 percent) and the unwinding of the discount is presented within finance costs.

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

become economically unviable, which in itself will depend on future commodity prices, which are inherently uncertain.

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

22. Borrowings and facilities

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

	2020 \$000	2019 \$000
Reserves based loan facility	1,448,550	2,067,339
Junior facility	396,422	395,613
10% Unsecured C loan notes 2027	-	34,355
10% Unsecured D loan notes 2027	264,751	282,151
Exploration finance facility	14,151	8,999
Other loans	37,541	34,228
	2,161,415	2,822,685

Classified within	2020 \$000	2019 \$000
Non-current liabilities	2,160,312	2,205,322
Current liabilities	21,546	617,363
	2,181,858	2,822,685
Non-current assets (deferred fees)	(141)	-
Current assets (deferred fees)	(20,302)	-
	2,161,415	2,822,685

The deferred fees shown in current and non-current assets reflects the expected amortisation of fees within earlier periods where there is no expected repayment of principal.

Interest of \$2.8 million (2019: \$11.7 million) on the Reserve Based Loan (RBL) and junior facilities had accrued by the balance sheet date and has been classified within accruals and deferred income.

Since the original RBL facility in 2017 to the present day, the Group has made various amendments to the terms of the RBL facility, these include:

- term extended to 31 December 2025
- facility size now at \$3 billion (with \$1 billion accordion option)
- debt availability currently at \$2.5 billion
- debt availability to be redetermined on an annual basis
- interest at USD LIBOR plus a margin of 3.25 percent, rising to a margin of 3.5 percent from June 2023
- the incorporation of a margin adjustment linked to carbon-emission reductions
- the syndication group now stands at 18 banks.

Certain fees are also payable, including fees on available commitments at 40 percent of the applicable margin and commission on letters of credit issued at 50 percent of the applicable margin. The junior facility of \$400 million carries interest at six-month USD LIBOR plus a margin of 5.25 percent, rising to a margin of 5.5 percent from June 2023, and is repayable in semi-annual instalments between 30 June 2022 and 30 June 2026.

The extensions and amendments made to the senior and junior facilities were such that they were not deemed to be a replacement of the existing Group's borrowing facilities.

During 2019, Chrysaor entered into a NOK 750 million exploration finance facility with Skandinaviska Enskilda Banken in relation to part-financing the exploration activities of Chrysaor Norge AS. At the balance sheet date, the amount drawn down on the facility was NOK 124 million (2019: NOK 83 million).

Incremental transaction costs of \$53.6 million and \$8 million were incorporated into the initial carrying amount of the RBL and junior facilities respectively, when those facilities were completed in 2017, and a further \$45.1 million and \$18.4 million of transaction costs were capitalised when the terms of the RBL were amended in June 2019 and June 2020; these amounts are being amortised over the term of the relevant arrangement. During the year \$16.9 million (2019: \$15.5 million) of transaction costs in relation to the RBL and junior facilities, and \$0.1 million (2019: \$0.1 million) in relation to the exploration finance facility, have been amortised, and are included within financing costs. At the balance sheet date, the outstanding RBL and junior loan balances excluding incremental transaction costs were \$1,518 million and \$400 million respectively (2019: \$2,134 million and \$400 million). As at 31 December 2020, the junior facility remained fully drawn and \$1,013 million remained available for drawdown under the RBL facility.

The unsecured loan notes were issued in 2017 and are listed on The International Stock Exchange (formerly the Channel Islands Securities Exchange). They incur interest of 10 percent 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. None of the loan notes carry voting rights.

In February 2020, a partial cash redemption of the C Loan Notes of \$4.9 million and D Loan Notes of \$42.0 million took place, and in November 2020 a full redemption of

the remaining C Loan Notes took place, of \$30.2 million.

The Group has facilities to issue up to \$750 million of Letters of Credit, of which \$557 million was in issue as at 31 December (2019: \$599 million), mainly in respect of future abandonment liabilities.

Other loans represent a commercial financing arrangement with BHGE, covering a 3-year work programme for drilling, completion and subsea tie-in of development wells on Chrysaor's operated assets. As part of the deal, BHGE contribute to the costs of the work programme by funding a portion of the capital expenditure, in exchange for a greater exposure to returns, as well as risks, should certain targets and success criteria, both operational and geological, be met. Interest on this financing arrangement has been calculated using the effective interest method with reference to the expected cash flows, using an estimated reserve case.

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

Notes to the financial statements for the year ending 31 December 2020 (continued)

	\$000
Total borrowings as at 1 January 2019	1,804,889
Repayment of senior debt	(200,000)
Proceeds from drawdown of borrowing facilities	1,834,000
Proceeds from financing arrangement	29,600
Proceeds from exploration financing facility	9,275
Conversion of E loan notes to equity	(675,264)
Transaction costs on senior debt paid and capitalised	(45,134)
Transaction costs on exploration financing facility paid and capitalised	(507)
Currency translation adjustments	174
Loan notes interest capitalised	69,767
Financing arrangement interest (receivable)	(19,696)
Amortisation of transaction costs	15,581
Total borrowings as at 31 December 2019	2,822,685
Repayment of senior debt	(774,000)
Repayment of financing arrangement	(1,634)
Repayment of exploration financing facility	(8,704)
Proceeds from drawdown of borrowing facilities	157,500
Proceeds from exploration financing facility	12,858
Loan notes redemption	(77,140)
Transaction costs on senior debt paid and capitalised	(18,385)
Currency translation adjustments	851
Loan notes interest capitalised	25,385
Financing arrangement interest payable	4,947
Amortisation of transaction costs	17,052
Total borrowings as at 31 December 2020	2,161,415

23. Other financial assets and liabilities

The Group held the following financial instruments at fair value at 31 December 2020. The fair values of all derivative financial instruments are based on estimates from observable inputs and are all level 2 in the IFRS 13 hierarchy, except for the royalty valuation and the Shell contingent consideration, which both include estimates based on unobservable inputs and are level 3 in the IFRS 13 hierarchy.

	31 December 2020		31 December 2019	
	Assets \$000	Liabilities \$000	Assets \$000	Liabilities \$000
Measured at fair value through profit and loss				
Royalty consideration	3,000	-	3,000	-
Commodity derivatives – contingent consideration	-	-	-	(12,495)
	3,000	-	3,000	(12,495)
Measure at fair value through other comprehensive income				
Commodity derivatives – cash flow hedges	191,606	(74,166)	190,888	(27,950)
Foreign exchange derivatives – cash flow hedges	12,565	-	-	-
Carbon swaps – cash flow hedges	15,417	-	-	-
	219,588	(74,166)	190,888	(27,950)
Total current	222,588	(74,166)	193,888	(40,445)
Measured at fair value through profit and loss				
Royalty consideration	6,720	-	9,100	-
Measured at fair value through other comprehensive income				
Commodity derivatives – cash flow hedges	72,792	(48,448)	193,130	(3,663)
Interest rate derivatives – cash flow hedges	-	(4,042)	-	-
Carbon swaps – cash flow hedges	10,859	-	-	-
	83,651	(52,490)	193,130	(3,663)
Total non-current	90,371	(52,490)	202,230	(3,663)
Total current and non-current	312,959	(126,656)	396,118	(44,108)

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.

Notes to the financial statements for the year ending 31 December 2020 (continued)

	Financial assets		Financial liabilities	
	Level 2 \$000	Level 3 \$000	Level 2 \$000	Level 3 \$000
As at 31 December 2020				
Royalty valuation	-	9,720	-	-
Commodity derivatives – cash flow hedges	264,398	-	(122,614)	-
Foreign exchange derivatives – cash flow hedges	12,565	-	-	-
Carbon swaps – cash flow hedges	26,276	-	-	-
Interest rate derivatives – cash flow hedges	-	-	(4,042)	-
	303,239	9,720	(126,656)	-
As at 31 December 2019				
Royalty valuation	-	12,100	-	-
Commodity derivatives – cash flow hedges	384,018	-	(31,613)	-
Commodity derivatives – contingent consideration	-	-	-	(12,495)
	384,018	12,100	(31,613)	(12,495)

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	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
Fair value as at 1 January	12,100	12,700	(12,495)	(39,354)
Additions	-	-	-	-
Settlements	(1,080)	(3,000)	12,495	34,058
Gains and losses recognised in the income statement	(1,300)	2,400	-	(7,199)
Currency translation adjustments	-	-	-	-
Fair value as at 31 December	9,720	12,100	-	(12,495)

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

The agreement with the sellers of the UK North Sea assets purchased by the Group in 2017 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.

Fair value movements recognised in the income statement on financial instruments are shown below.

	2020 \$000	2019 \$000
(Expense) included in the income statement		
Remeasurement of royalty valuation	(1,300)	2,400
Remeasurement of commodity price contingent consideration	-	(7,199)
	(1,300)	(4,799)

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.

	2020		2019	
	Book value \$000	Fair value \$000	Book value \$000	Fair value \$000
Long-term borrowings – loan notes	(264,751)	(298,955)	(316,506)	(357,676)

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, and options to manage the price risk associated with its underlying oil and gas revenues. As at 31 December 2020, 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 following table indicates the volumes, average hedged price and timings associated with the Group's financial commodity derivatives. Volumes hedged through fixed price contracts with customers for physical delivery are excluded.

Notes to the financial statements for the year ending 31 December 2020 (continued)

Position as at 31 December 2020	2021	2022	2023	2024	2025
Oil volume hedged (thousand bbls)	20,006	1,095	-	-	-
Weighted average hedged price (\$/bbl)	57.51	60.07	-	-	-
Gas volume hedged (million therms)	1,235	1,392	1,136	433	90
Weighted average hedged price (p/therm)	44p	44p	41p	43p	45p

As at 31 December 2020, the fair value of net financial commodity derivatives designated as cash flow hedges was \$141.8 million (2019: \$352.4 million) and net unrealised pre-tax gains of \$113.0 million (2019: gains \$321.2 million) 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 income statement as the underlying hedged transactions occur. As at 31

December 2020, net deferred pre-tax gains of \$117.4 million (2019: gains \$162.9 million) are expected to be released to the income statement within one year.

24. 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 are summarised in this note.

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 2020 and 2019.

The sensitivity analyses have been prepared on the basis that the number 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 percent of the next 12 months' production ('year 1'), between 40 and 60 percent of 'year 2' production, between 30 and 50 percent of 'year 3' production and up to 40 percent of 'year 4' production. 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.

As at 31 December 2020	Market movement	Effect on profit before tax \$000	Effect on equity \$000
Brent oil price	USD10/bbl increase	-	(123,347)
Brent oil price	USD10/bbl decrease	-	123,347
NBP gas price	GBP 0.1/therm increase	-	(261,881)
NBP gas price	GBP 0.1/therm decrease	-	261,881

As at 31 December 2019

Brent oil price	USD10/bbl increase	-	(208,370)
Brent oil price	USD10/bbl decrease	-	208,370
NBP gas price	GBP 0.1/therm increase	-	(135,893)
NBP gas price	GBP 0.1/therm decrease	-	135,893

b. Interest rate risk

Floating rate borrowings comprise loans under the RBL and junior facilities which incur interest fixed either one month, three months or six months in advance at USD LIBOR plus a margin of 3.25 to 5.25 percent. Fixed rate borrowings comprise a series of shareholder loan notes which incur interest at 10 percent 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 uses interest rate derivatives to manage the fixed and floating composition of its borrowings.

The below represents interest rate financial instruments in place at 31 December 2020:

Derivative	Currency	Period of hedge	Terms
Interest rate swaps	\$700 million	Jun 20 – Jun 25	Average 0.5561%

Notes to the financial statements for the year ending 31 December 2020 (continued)

There were no interest rate financial instruments in place at 31 December 2019.

The interest rate and currency profile of the Group's interest-bearing financial assets and liabilities is shown below.

	Cash at bank \$000	Fixed rate borrowings \$000	Floating rate borrowings \$000	Total \$000
As at 31 December 2020				
US Dollars	414,629	(264,751)	(1,882,513)	(1,732,635)
Pound Sterling	27,232	-	-	27,232
Norwegian Krone	3,324	-	(14,151)	(10,827)
Other	192	-	-	192
	445,377	(264,751)	(1,896,664)	(1,716,038)
As at 31 December 2019				
US Dollars	510,109	(316,506)	(2,497,180)	(2,303,577)
Pound Sterling	53,694	-	-	53,694
Norwegian Krone	15	-	(8,999)	(8,984)
Other	9,364	-	-	9,364
	573,182	(316,506)	(2,506,179)	(2,249,503)

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.

	Market movement	Effect on profit before tax \$000	Effect on equity \$000
2020			
US interest rates	+100 basis points	(15,029)	25,232
2019			
US interest rates	+100 basis points	(20,239)	-

c. 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, US Dollar and Norwegian Krone. 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.

The Group enters into forward contracts as a means of hedging its exposure to foreign exchange rate risks. As at 31 December 2020, the Group had £135.0 million hedged at forward rates of between \$1.2321 and \$1.2990: £1 for the period January 2021 to November 2021.

As at 31 December 2019, 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.

	Market movement	Effect on profit before tax \$000	Effect on equity \$000
2020			
US dollar/Sterling	10% strengthening	163,766	18,452
US dollar/Sterling	10% weakening	(163,766)	18,452
2019			
US dollar/Sterling	10% strengthening	133,595	-
US dollar/Sterling	10% weakening	(133,595)	-

d. Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and derivative financial instruments.

The Group only sells hydrocarbons to recognised and creditworthy parties, typically the trading arm of large, international oil and gas companies. An indication of the concentration of credit risk on trade receivables is shown in

note 4, whereby the revenue from one customer exceeds 95 percent of the Group's consolidated revenue.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are internationally recognised banking institutions and are considered to represent minimal credit risk.

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

e. 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 2020 and 2019 based on contractual undiscounted payments.

Notes to the financial statements for the year ending 31 December 2020 (continued)

As at 31 December 2020	Within one year \$000	1 to 2 years \$000	2 to 5 years \$000	Over 5 years \$000	Total \$000
Non-derivative financial liabilities					
Reserves Based Loan facility	53,038	73,107	1,595,880	-	1,722,025
Junior facility	22,324	175,178	225,201	45,685	468,388
Loan notes	-	-	-	507,905	507,905
Exploration finance facility	14,702	-	-	-	14,702
Other loans	7,254	14,929	31,283	5,736	59,202
Trade and other payables	673,606	29,825	-	-	703,431
Lease obligations	60,120	44,892	23,865	31,489	160,366
	831,044	337,931	1,876,229	590,815	3,636,019
Derivative financial liabilities					
Net-settled commodity derivatives	74,166	20,361	28,087	-	122,614
Net-settled interest rate derivatives	-	-	4,042	-	4,042
Total as at 31 December 2020	905,210	358,292	1,908,358	590,815	3,762,675

As at 31 December 2019	Within one year \$000	1 to 2 years \$000	2 to 5 years \$000	Over 5 years \$000	Total \$000
Non-derivative financial liabilities					
Reserves based loan facility	713,412	580,844	1,030,513	79,060	2,403,829
Junior facility	29,154	29,075	354,062	105,674	517,965
Loan notes	-	-	-	660,052	660,052
Exploration finance facility	9,732	-	-	-	9,732
Other loans	16,046	13,290	23,856	-	53,192
Trade and other payables	593,066	32,575	19,800	-	645,441
Lease obligations	80,045	72,220	54,938	30,302	237,505
	1,441,455	728,004	1,483,169	875,088	4,527,716
Derivative financial liabilities					
Net-settled commodity derivatives	40,445	1,330	2,333	-	44,108
Total as at 31 December 2019	1,481,900	729,334	1,485,502	875,088	4,571,824

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.

25. Called up share capital

Allotted, called up and fully paid	No.	2020 \$000	No.	2019 \$000
F Ordinary shares of £0.01 each	4,994,624	61	4,994,624	61
G Ordinary shares of £0.40 each	18,900	10	18,900	10
M Ordinary shares of £0.01 each	9,865	-	9,865	-
		71		71

As at 31 December 2020 and 31 December 2019, 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 ending 31 December 2020 (continued)

26. Notes to the statement of cash flows

Net cash flows from operating activities consist of:

	2020 \$000	2019 \$000
(Loss)/profit before taxation	(977,747)	455,558
Finance cost, excluding foreign exchange	261,693	256,399
Finance income, excluding foreign exchange	(7,463)	(31,611)
Depreciation, depletion and amortisation	1,222,103	917,015
Impairment of property, plant and equipment	643,977	-
Impairment of goodwill	411,435	-
Taxes paid	(189,592)	(90,183)
Share based payments	11,800	10,905
Decommissioning payments	(162,071)	(28,955)
Onerous contract provision	18,475	-
Exploration costs written-off	160,806	222
Remeasurement on commodity price contingent consideration	-	7,199
Remeasurement on exploration contingent consideration	-	(7,773)
Remeasurement of acquisition completion adjustments	426	-
Onerous contract payments	(5,429)	-
Decrease in royalty consideration receivable	2,380	600
Gain on termination of IFRS16 lease	(515)	-
Loss on disposal of exploration and evaluation asset	55	-
Movement in realised cashflow hedges not yet settled	(5,658)	(23,746)
Unrealised foreign exchange loss	34,681	63,767
Working capital adjustments:		
(Increase)/decrease in inventories	(11,186)	208
Decrease/(increase) in trade and other receivables	41,530	(6,086)
Decrease in trade and other payables	(76,338)	(4,858)
Net cash inflow from operating activities	1,373,362	1,518,661

Reconciliation of net cash flow to movement in net borrowings

	2020 \$000	2019 \$000
Proceeds from drawdown of borrowing facilities	(157,500)	(1,834,000)
Proceeds from financing arrangement	-	(29,600)
Conversion of E loan notes to equity	-	675,264
Proceeds from exploration financing facility loan	(12,858)	(9,275)
Repayment of senior debt	774,000	200,000
Loan notes partial redemption	77,140	-
Repayment of exploration financing facility loan	8,704	-
Repayment of financing arrangement	1,634	-
Transaction costs capitalised	18,385	45,641
Financing arrangement interest (payable)/receivable	(4,947)	19,696
Amortisation of transaction costs capitalised	(17,052)	(15,581)
Currency translation adjustment on EFF loan	(848)	(175)
Currency translation adjustment on transaction costs	(3)	1
Loan notes interest capitalised	(25,385)	(69,767)
Movement in total borrowings	661,270	(1,017,796)
Movement in cash and cash equivalents	(127,805)	256,871
Decrease/(increase) in net borrowings in the year	533,465	(760,925)
Opening net borrowings	(2,249,503)	(1,488,578)
Closing net borrowings	(1,716,038)	(2,249,503)

Analysis of net borrowings

	2020 \$000	2019 \$000
Cash and cash equivalents	445,377	573,182
Reserves Based Loan facility	(1,448,550)	(2,067,339)
Junior facility	(396,422)	(395,613)
Net debt	(1,399,595)	(1,889,770)
Shareholder loan notes	(264,751)	(316,506)
Exploration financing facility	(14,151)	(8,999)
Financing arrangement	(37,541)	(34,228)
Closing net borrowings	(1,716,038)	(2,249,503)

Notes to the financial statements for the year ending 31 December 2020 (continued)

27. 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 14.

The Group's main related parties comprise members of key management personnel and Harbour Energy Limited (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.

Share capital

On 31 August 2019, the 10 percent Unsecured E Loan notes held by Harbour Energy, with a principal and accrued interest value of \$675.3 million, were exchanged for 4,013,524 F ordinary shares of £0.01 each. In November 2019, 225 M ordinary shares of £0.01 each were issued to certain members of key management for a cash consideration of £10 per share.

Shareholder loan notes

At the end of 2018, Harbour Energy held E loan notes with a principal value of \$566.9 million plus accrued interest. On 31 August 2019, all the E Loan Notes including accrued interest were exchanged for F ordinary shares, at a value of \$675.3 million. The main impact of the exchange is that Harbour Energy's direct equity interest in CHL increased to

89.6 percent from 48 percent. In February 2020, a partial redemption of both the C Loan Notes and D Loan Notes took place, of \$4.9 million and \$42.0 million respectively, and in November 2020, a full redemption of the remaining C Loan Notes took place, of \$30.3 million.

As at 31 December 2020, the carrying amount of D loan notes due to Harbour Energy was \$264.8 million (2019: \$282.2 million) and the value of C loan notes due to key management personnel was \$nil million (2019: \$2.0 million). The amount of interest charged to the income statement associated with all loan notes payable to Harbour Energy and key management was \$24.6 million and \$0.1 million respectively (2019: \$67.3 million and \$0.1 million respectively).

The Company also pays governance and monitoring fees to its institutional shareholders. For the year ended 31 December 2020, the total fees payable to Harbour Energy amounted to \$8.6 million (2019: \$8.6 million) and to other shareholders \$1.0 million (2019: \$1.0 million) with \$0.6 million outstanding as at the balance sheet date (2019: \$1.0 million).

Controlling Party

The immediate parent undertaking is Harbour Chrysaor Equity Holdings Ltd (Cayman). The ultimate parent undertaking and the largest and smallest group to consolidate these financial statements is Harbour Energy Holdings Ltd (Cayman).

Copies of the Harbour Energy Holdings Ltd consolidated financial statements can be obtained from the company secretary at 7th Floor, 20 St. James's Street, London, SW1A 1ES.

Key management compensation

Remuneration of key management personnel, including directors of the Group, is shown below. The remuneration of the Non-Executive Chairman is wholly paid by EIG Management Company. The remuneration of the Harbour-appointed directors for their board roles of the Company is wholly paid by Harbour Energy.

Post balance sheet events

The merger with Premier continues per deal plans and is expected to complete around 31 March 2021, with the admission of the new group to the London Stock Exchange.

In February 2021, the Board approved a partial redemption of the D Loan Notes of \$135.7 million, for which the payment was made on 15 March 2021.

	2020 \$000	2019 \$000
Salaries and short-term benefits	13,576	10,811
Payments made in lieu of pension contributions	802	517
Pension benefits	120	190
	14,498	11,518

Glossary

2C	Contingent resources
2P	Proven and probable reserves
bbl	Barrel
BMS	Business management system
boe	Barrel of oil equivalent
boepd	Barrel of oil equivalent per day
CEO	Chief executive officer
CUI	Corrosion under insulation
DD&A	Depreciation, depletion and amortisation
DNV	Det Norske Veritas-Germanischer Lloyd
EFF	Exploration financing facility
ESR	Elected safety representative
FID	Final investment decision
FEED	Front End Engineering & Design
FPS	Forties pipeline system
HSEx	Health and safety executive
HSEQ	Health, safety, environment and quality
MAE	Major accident event
mboepd	Thousand barrels of oil equivalent per day
mmboe	Million barrels of oil equivalent
MPE	Ministry of petroleum and energy, Norway
OPPC	Oil pollution prevention and control
OPRED	Offshore petroleum regulator for environment and decommissioning
OSDR	Offshore safety directive regulator
PCOA	Put and call options agreement
POP	Platform operating procedure
SWE	Safe working essentials
TAR	Turnaround
TRIF	Total recordable incident frequency
WOSPS	West of Shetland pipeline system

Non-IFRS measures

The Group uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. These non-IFRS measures, which are presented within the Financial Review are EBITDAX, Cost per barrel, Depreciation, depletion and amortisation per barrel, free cash flow and net debt and are defined below.

- **EBITDAX:** is defined as earnings before tax, interest, depreciation and amortisation, remeasurements and exploration expenditure. This is a useful indicator of underlying business performance.

- **Operating cost per barrel:** direct operating costs (excluding over/underlift) for the year including tariff expense and insurance costs less tariff income, divided by working interest production. This is a useful indicator of ongoing operating costs from the Group's producing assets.
- **Depreciation, depletion and amortisation (DD&A) per barrel:** depreciation and amortisation of oil and gas properties for the year divided by working interest production. This is a useful indicator of ongoing rates of depreciation and amortisation of the Group's producing assets.
- **Free cash flow:** defined as EBITDAX less capital expenditure.
- **Net debt:** the cash and cash equivalents less total senior and junior debt recognised on the consolidated balance sheet. This is an indicator of the Group's indebtedness and contribution to capital structure.



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