




CHRYSAOR

Report and Financial Statements

31 DECEMBER 2018



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Corporate Information

Directors

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
John Hogan	Non-Executive Director
Andrew Jamieson	Non-Executive Director
R. Blair Thomas	Non-Executive Director

Secretary

Howard Landes

Independent Auditors

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The background of the cover is a dark purple, monochromatic image of a sea with gentle waves under a cloudy sky. A thin, light-colored hexagonal outline is centered on the page, framing the text.

Group Strategic Report

(1) 2018 Review

Chrysaor has completed its first full calendar year of ownership following the acquisition of a major portfolio of North Sea assets in November 2017. A busy first year brought with it a period of business, functional and cultural change. The time was spent embedding Chrysaor's vision, values and business principles, establishing the Company as the leading independent exploration and production (E&P) company in the North Sea.

Chrysaor's high quality portfolio in the UK consists of three wholly owned and operated assets: Lomond, North Everest and Armada (with the single partner equity in the Armada hub having been acquired on 1 June) and significant equity interests in the non-operated fields of Beryl, Buzzard, Elgin Franklin, J Area and Schiehallion. This UK portfolio has been complemented during the year by the award of eight licences in the UK from the 30th Round Licence Award and the Group's entry into Norway with the Grevling acquisition, and since year end Chrysaor was awarded two nearby Norwegian exploration licences in early 2019.

Production for the year totalled 105mboepd (2017: 99mboepd for the two months of ownership) split between operated 21% and non-operated 79%, and liquids 62% and gas 38%. This production mix reflects the 2P reserves and provides risk diversification. The portfolio produced as high as 140mboepd in January 2018, however there were a number of key events which restricted uptime over the course of the year: the Lomond-Erskine pipeline required an unplanned 26 km partial replacement and was shut-in between January and September; adverse winter weather conditions shut-in the three operated platforms for around two weeks during late February; in the Beryl Area significant operator rescheduling of infill production wells on the Beryl field; and on Buzzard, a shut-in for approximately three weeks

from late November due to corrosion under insulation discovered on the main production pipeline on Buzzard.

Achieving 100% equity ownership in the Armada hub allowed Chrysaor to plan and commence an extensive drilling programme to underpin and extend the production profile over the medium term and deliver a material accretion in value of the area whilst staving off cessation of production and enabling further material oil and gas resources to be matured. Using the Rowan Gorilla VII (RGVII) rig, the Maria Crestal and Maria Terrace wells were successfully drilled and came on stream in December 2018 and February 2019 respectively. The Mabel well followed thereafter and was spudded in February 2019. To support operations Chrysaor entered into an innovative service partnership agreement with Baker Hughes, a GE company (BHGE). The contract covers the drilling, completion and tie-in of development wells drilled on Maria and future prospects and gives BHGE a share in both the risks and rewards associated with operations and reservoir outcome. This has helped to nurture a "one team" environment and ensure good goal alignment.

During 2018 Chrysaor successfully expanded into Norway through both asset acquisition via a farm-in on the Grevling asset and organically through the annual licence round awards. To support operations Chrysaor opened its office in Oslo in October 2018.

The operational performance of the business was good during 2018, our first full year of operations. Achievements included good safety performance, completion of the annual HSEQ (Health, Safety, Environment and Quality) plan, improvement in recordable incident frequencies and a significant reduction in maintenance hours. Financial performance was strong, as the business generated \$1.1billion of operating cash flow less capital expenditure. Robust cost control on capital investment and operating costs was a significant factor in cash generation with operating costs per barrel at \$12.60/boe (2017: \$14.20/boe). Cash flow was also supported by higher commodity prices and an active hedging programme. Proven and probable reserves at 1 January 2019 were 327mboe (2017: 350mboe) which reflects underlying

reserve additions of 15mmbbls, having produced 38mboe during the year, or a reserves replacement ratio of 39.5%.

Chrysaor continues to develop strong governance by implementing business processes and systems in a disciplined manner to ensure the business is appropriately managed whilst allowing for scalability in the future. Specifically, Chrysaor has invested in its Business Management System (BMS) which holds the Company's mandatory policies, standards, guidelines and procedures, and allows the Group to meet the requirements of International Standards ISO9001 and ISO14001. Chrysaor is closely following developments in corporate governance requirements for both public and private companies ensuring adherence where required, and in 2019 the Board will consider and adopt a formal corporate governance code.

The UK's departure from the European Union ('Brexit') is unlikely to have a material effect on Chrysaor's business. However, Brexit increases exposure to various risks, including regulatory complexity, political uncertainty, delays in the supply chain and foreign currency movements, all of which may adversely affect operations and financial results.

Looking ahead to 2019 and beyond, Chrysaor will strive to deliver safe operations with improved reliability, protect its people, assets and the environment, and deliver value from within its existing portfolio. A key focus will also be on expanding the business organically through exploration, appraisal and development both in the UK and in Norway, and identifying growth opportunities via acquisition.

On 18 April 2019 Chrysaor announced it had signed an agreement to acquire ConocoPhillips' UK oil and gas business for \$2.675 billion. The three most material assets in the portfolio include new operated hubs in the UK Central North Sea - Britannia and J-Block, together with a non-operated interest in the Clair Field, West of Shetland. The assets being acquired produced 72,000 barrels of oil equivalent per day (boepd) in 2018. The transaction has an effective date of 1 January 2018 and is expected to complete in late 2019.

Group Strategic Report (continued)

(2) Market Review

Commodity price variations were significant in 2018. For crude oil the first half of the year was characterised by rising prices - monthly average Brent prices increased from \$60s/bbl at the beginning of the year to the low \$70s/bbl mid-year. This was driven by OPEC and non-OPEC production cuts amid record global demand for oil, rising above 100mboepd for the first time in 2018.

Positive momentum in the oil price continued through the third quarter with Brent oil price in October averaging above \$80/bbl. However, the final quarter of the year saw a significant decline to below \$60/bbl average for December 2018. Oil prices began to recover at the beginning of 2019.

UK gas prices in 2018 were generally strong. The first half of the year saw gas prices averaging 55p/therm and the second half of the year averaging 65p/therm. This compared to average prices of 45p/therm for 2017 and 35p/therm for 2016. Since the end of the year unseasonably warm weather across Europe and Asia has seen gas prices under pressure and falling to 2016 levels.

The US Dollar versus Pound Sterling exchange rate averaged 1.33 during 2018. The first half of the year saw a stronger British Pound with an average exchange rate for the period of 1.38 and a high of 1.43 in April. The second half of the year saw an average exchange rate of 1.29 with a low of 1.25 in December, driven by political uncertainty around Brexit.

The value of UK upstream oil and gas merger and acquisition (M&A) deals announced in 2018 was muted at \$1.3 billion, characterised by relatively small transactions below \$500 million. These deals were smaller compared to 2017 when upstream M&A surpassed \$8 billion due to a handful of large deals, including Chrysaor's acquisition with a headline value of \$3 billion. Despite lower activity in 2018, the major oil and gas companies continue to evaluate their position in the region with various potential transactions being reported in the mainstream media over the course of the year.

(3) Organisation and Culture

Culture

Chrysaor is proud of the way it does business and how it treats business partners and stakeholders. In 2018 significant effort was made to promote the core values and business principles ensuring that they were at the heart of all of the operations and that the positive company culture was embedded.

Chrysaor's core values represent what the Company stands for, what is important and what will not be compromised upon.

The core values are:

- Integrity
- Safety
- Passion
- Innovation

These core values are supported by a set of business principles which define Chrysaor's expectations in all key areas of business activities. The business principles are:

The business principles are:

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

Chrysaor believe that through working with competent, innovative and dedicated colleagues, who adhere to these core values and business principles, they will safely and reliably deliver their vision and strategic goals.

The Chrysaor Core Values



Integrity

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



Safety

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



Passion

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



Innovation

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

Group Strategic Report (continued)

The Chrysaor Business Principles

Risk Management & Environment

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

Integrity & Ethics

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

Communication

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

Economics

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

Excellence

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

The Chrysaor Organisation

Chrysaor's organisation has grown prudently where additional resource requirements have been identified. There has been no change in senior management or function heads during the year which has provided for a stable and consistent leadership team.

The Company opened its Norway office in Oslo in October 2018 where headcount is expected to grow to around 20 by the end of 2019.

Currently across the Chrysaor Group there are approximately 460 Chrysaor employees and contractors with responsibilities spread across the locations as follows:

- **Aberdeen:** HSEQ, Asset Management, Projects & Development, Technical Assurance/Innovations, Supply Chain, Tax, Legal, Communications, Commercial, Human Resources, Wells & Subsea, Operational Finance, Subsurface & Pre-Development.
- **London:** Group Executive Team, Group Finance, Treasury, Planning & Economics, Insurance, Group Legal, Marketing/Trading, Exploration, Business Development and Information Technology.
- **Offshore:** HSE, Asset Integrity, Production Operations & Maintenance, Wells & Subsea.
- **Norway:** Local Management, Finance and Exploration.



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Signpost: more information on Chrysaor people and gender pay gap can be found in the Governance and Compliance report (**section 13**).

People Engagement

Chrysaor's culture is based on a community of empowered and passionate people who deliver the Company's business principles through its shared core values. To ensure this, Chrysaor works hard to set its people up for success, through on-boarding and employee engagement processes.

The teams, whether onshore or offshore, all have direct access to Chrysaor's leadership and management, who try to listen and respond honestly, clearly and quickly. Communication is an all-round process, within and across all functions and externally.

Chrysaor utilises a wide variety of media platforms to ensure all employees are easily able to access and engage with company information and leadership.

By having such an open and direct culture of employee engagement, Chrysaor's workforce is involved, committed and empowered to make a strong contribution to the Company's success.

- **Onboarding** – for new employees, roll out of Chrysaor core values and business principles.
- **Induction videos** – for new employees and visitors, Chief Executive Officer (CEO) message capturing the core values and business principles.
- **Weekly bulletin and 'huddles'** – short and frequent immediate access to senior management.
- **Town hall meetings** – CEO-led open sessions discussing issues and performance.
- **#KeepTalking sessions and videos** – selected operational and functional presentations.
- **Q&A sessions** – Aberdeen General Manager and Operations Director question time.
- **Pre-flight check-in chats** – HSEQ Director meets with offshore crews before helicopter flights.
- **Regular offshore trips** – regular Executive and Leadership team offshore visits.
- **Cross-function team building** – initiative to develop cross-function interaction.
- **Team away sessions** – selected afternoons and events.
- **'Lunch & Learn'** – sessions covering technical/non-technical/health and wealth management topics.
- **Training and development programmes** – wide training plans including a People Management Programme.
- **Employee forum** – area for people to speak up, attended by Operations Director and CEO.
- **Safety representative meetings** – sessions arranged by HSEQ, quarterly led by CEO.
- **Role vacancies** – roles advertised internally on the Company intranet.
- **Sports and social club** – opportunity to share life outside the office.
- **Competence coaching** – for offshore teams.
- **Behavioural coaching** – for onshore teams.



Safety Training

Chrysaor's management is committed to supporting a culture and organisation which, through working together, maintains and improves a safe system and place of work, both onshore and offshore.

Chrysaor has adopted industry body Step Change in Safety's 'Safe Working Essentials' which support the standardisation of Tool Box Talks and other key risk management processes across the industry.

All employees and contractors of Chrysaor are expected, and have the express authority, to stop work if they believe it is unsafe to continue. Chrysaor's lifesaving rules provide straightforward guidance on how to protect themselves and their colleagues whilst engaged in activities with the highest potential risk.

Chrysaor's management makes it clear that the collective top priority, fundamental to everything Chrysaor does, is to protect all colleagues through the prevention of a Major Accident Event.

Recognising all employees and contractors have a role to play, the four major accident awareness packs - prepared and sponsored by industry body Step Change in Safety - have been shared with the business, both onshore and offshore. These promote a systematic approach to the identification and management of safety, environmental and operational Major Accident Hazards and build staff competence and confidence.

In addition to raising awareness and understanding, the Company has deployed a Major Accident Hazard training course which will run until 2020. All employees will attend a tailored course at the DNV-GL facility at Royal Air Force Spadeadam in Cumbria, which combines classroom theory and full-scale explosion and jet fire demonstrations.

(4) Chrysaor's Business Model

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

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

Pre-licence and exploration phases deliver new hydrocarbon discoveries via disciplined organic growth. The subsequent appraisal phase reduces the technical uncertainties from exploration successes to prove up reserves and optimise development planning.

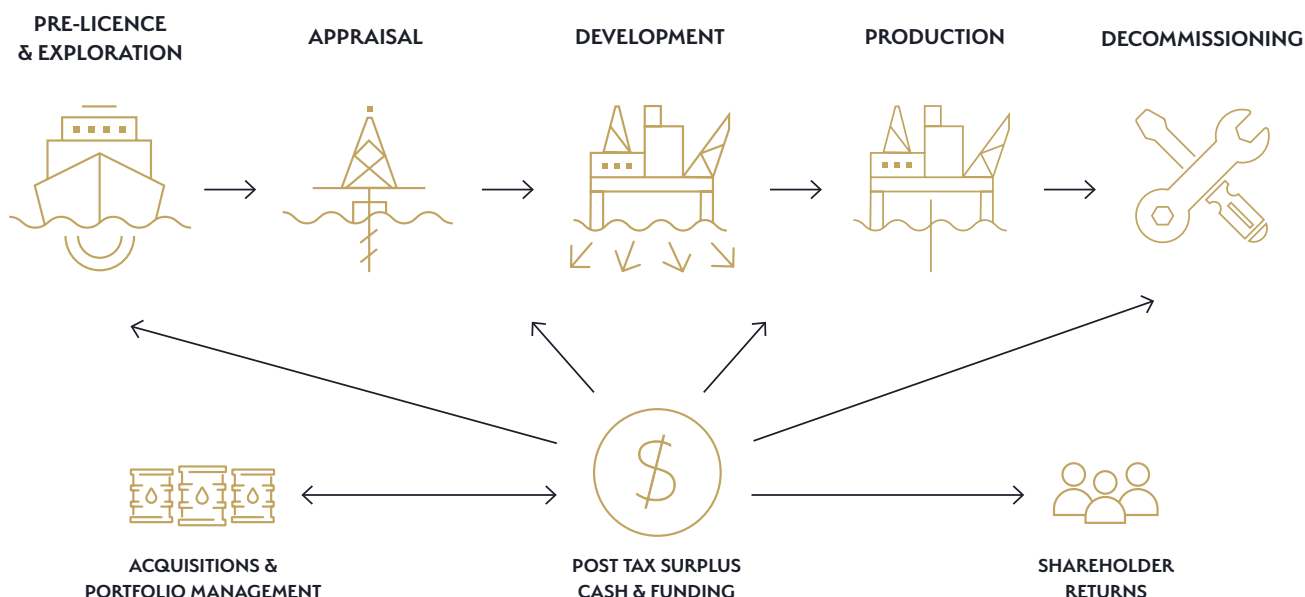
The development phase, which is the significant financial investment phase, converts discovered subsurface hydrocarbon resources into profitable producing assets such that the final phase realises the value of developed hydrocarbon resources through safe and efficient production.

The production portfolio delivers robust operating cash flow, which is complemented by a long-term debt and equity funding position that provides Chrysaor with a healthy financial investment basis.

Acquisitions and portfolio management are key activities to growth. Chrysaor is highly active in reviewing possible acquisitions that come to market - both large and small - and pursuing value driven opportunities which can potentially grow the Company within the boundaries of the current strategy and goals.

Decommissioning is the undertaking of obligations in respect of retiring assets. This consists of the removal of infrastructure and environmental restoration in compliance with legal and regulatory requirements.

The organic life cycle, combined with a prudent and rigorous capital investment allocation programme, innovative commercial deals and astute acquisitions, creates a high-quality and diverse portfolio which in turn creates shareholder returns in the form of capital growth and ultimately cash returns to investors.



Group Strategic Report (continued)

(5) Chrysaor's Vision and Strategy

"Chrysaor's vision is to create a market-leading North European E&P company of which we, our people and our stakeholders, can be proud." By working with competent, innovative and dedicated colleagues, who adhere to Chrysaor's core values and business principles, we believe we will safely and reliably deliver our goals and vision.

Strategy

Chrysaor's strategy is to deliver its vision by creating safe and sustainable growth which generates superior shareholder returns by exploring, appraising, developing and commercialising oil and gas resources, through both organic initiatives and acquisitions across the business life cycle.

Chrysaor's strategy consists of five pillars and aims to create and deliver value, growth and returns in a safe manner for its investors.



1

Safe and Reliable Operations**Chrysaor's primary objective is the safe and reliable operation of all its assets.**

The Company employs a rigorous annual Group HSEQ plan, chaired by the CEO, which was successfully completed for 2018. The plan sets out the high-level objectives and specific HSEQ initiatives for the Chrysaor Group.

The 2019 Group HSEQ Plan is structured with a particular focus on leading indicator topics that will promote performance improvement and enable staff to perform at their best. These include: leadership, communication, competency, compliance and assurance, and other forward-looking priorities.

Delivery of the plan is monitored monthly and reviewed by management with offshore leadership and safety representatives during frequent visits to the operating assets. There are two independently facilitated HSEQ management reviews each year which meet the requirements of International Standards ISO9001 and ISO14001 and the UK Health & Safety Executive document HS(G)65. These reviews are chaired by the CEO and provide an opportunity for open engagement between operational leadership and functional HSEQ staff to discuss performance or identify areas for improvement. Progress against the plan is also reviewed regularly with the Board of Directors.

Achievement of the stated objectives is additionally supported by a broad ranging HSEQ audit and assurance programme which is completed during the year.

Together with the initiatives above, Chrysaor has been investing to improve production efficiency, targeting top quartile performance. The Company safely and reliably completed turnaround (TAR) and maintenance programmes on each of the three operated asset platforms during 2018, resulting in the improved integrity of the platforms, higher production efficiency and significantly reduced safety critical and deferred maintenance hours.

The near-term plan will be to build on the integrity and reliability gains consolidated in 2018 and drive further improvements in production efficiency, while managing known failure areas such as rotating equipment through continuous monitoring and preventative maintenance. These plans will enable longer-term views on production efficiency and reliability to be formulated.

In relation to the non-operated portfolio, close links with the operator and equity partners have enabled Chrysaor to both learn and pass on lessons across a wide operator base, which has led to efficiency and reliability improvements being shared by all.

Chrysaor recruits people who are appropriately experienced and of a high calibre within their functional capacity. The Company ensures people continue to develop through management and technical training, as well as people engagement initiatives which are aligned with the Company's goals. Chrysaor uses strategies and initiatives to ensure a low staff turnover rate.

The associated principal risks in the pillar are: operational safety; asset performance and drilling results; compliance; stakeholder relations; and cyber security.

Group Strategic Report (continued)

2

Hub-Led Growth Strategy

Chrysaor employs a hub-led growth strategy to target new near-field acreage and attract third parties to access production capacity in the pipeline and platform infrastructure.

During the year, Chrysaor was successful in being awarded all eight licences the Company applied for in the Oil and Gas Authority's (OGA) 30th Round Licence Awards. These licences include near-field positions around the operated hubs of Armada, Everest and Lomond and two licences in the non-operated J Area, allowing the Company to target material contingent resources.

On the Armada hub, Chrysaor drilled two wells in reservoirs on the Maria licence which were discoveries under prior operators. The Maria Crestal and Maria Terrace wells were successfully drilled and came on stream in December 2018 and February 2019 respectively. After the Maria Terrace well was completed in early 2019, the rig moved to the Armada hub Mabel licence to drill an appraisal well.

In Norway, Chrysaor applied for two licences in the Awards in Predefined Areas (APA) round which were awarded in January 2019. One of the potential export routes for the Grevling discovery is through the Armada facilities. Work has already begun to plan the execution of two wells in one of the APA round licences, with further work to be completed on following opportunities.

The associated principal risks in the pillar are: commodity prices and foreign exchange; operational safety; and asset performance and drilling results.

3

Maximise Economic Recovery

Chrysaor continually seeks opportunities to maximise the value from its portfolio at all stages of the business life cycle.

In June 2018, Chrysaor completed the acquisition of the remaining equity in the Armada hub from Spirit Energy. This provided Chrysaor with 100% equity on all the Armada hub licences, allowing the Maria drilling campaign to proceed. This has resulted in two new wells producing at a stabilised combined rate of around 9mboepd from February 2019.

In January 2018, the pipeline (PL781) between Erskine and Lomond became blocked due to wax. Under previous operators, the pipeline had not been regularly pigged since 2009, a recognised risk at the time of acquisition. Following several unsuccessful initiatives to unblock the pipeline, it was decided to replace a 26 km section of the pipeline. This was completed as budgeted with Lomond back on stream in September and Erskine in October 2018. The successful completion of this initiative has since allowed both fields to produce at maximum capacity.

The associated principal risks in the pillar are: disruption to production; asset performance and drilling results; and commodity prices and foreign exchange.

4

Build a Sustainable and Profitable Full-Cycle E&P Company

Sustainability and profitability is achieved through targeting growth and development across all life cycle phases from pre-licence to production.

Chrysaor is active in the pre-licence phase through licence 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.

Development and production activities such as the Maria drilling programme are focused on incremental near and in-field drilling to increase and extend the life of field and reduce production decline.

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

With regard to reserves, as a result of the various initiatives described, Chrysaor has added more than 77mboe to its proven and probable (2P) reserves base since the effective acquisition date of the Shell transaction which will sustain the production assets during the next few years with business plan production targeted to be at or above 120 mboepd. The Company also has material contingent resources (2C) around the operated and non-operated hubs to provide for future production.

In pursuing incremental development, exploration and appraisal activities, Chrysaor employs innovative commercial deals and financing structures to align the interests of stakeholders and best achieve strategic objectives. In 2018, Chrysaor entered into a service partnership agreement with BHGE. The contract covers the drilling, completion and tie-in of development wells drilled on the Maria licence and will also cover future wells. Chrysaor and BHGE will share both the risks and rewards associated with operations and reservoir outcome.

The associated principal risks in the pillar are: disruption to production; asset performance and drilling results; and commodity prices and foreign exchange.

5

Financial Strength

Chrysaor has a strong operating cash flow from its producing assets which allows the Company to be self-sustaining with sufficient free cash flow to cover capital reinvestment and debt management.

Financial management is exercised through revenue hedging activities and robust cost control which help to deliver financial performance within the bounds of Board approved budget and plans.

Capital funding consists of finance from its primary equity investor, Harbour Energy (an investment vehicle of EIG Global Energy Partners), other funds managed by EIG and long-term senior and junior debt. The senior debt is a Reserves Based Loan facility provided by a syndicate of 17 global financial institutions. The junior debt facility is provided by the Shell Treasury Dollar Company Limited as part of the acquisition.

The Company repaid \$735 million of the senior Reserves Based Loan (RBL) debt facility during the year with \$500 million senior debt liability remaining at year-end. Provided production and commodity prices are sustained at forecast levels, management expects the Company to be net debt free during 2019, but will retain the significant sized senior debt facility to underpin potential acquisitions and further growth opportunities.

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

The associated principal risks in the pillar are: disruption to production; commodity prices and foreign exchange; cash flow; liquidity and funding; and cyber security.

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Signpost: *The Operations report (section 7) describes the activities in 2018 and future focus aligned with delivering Chrysaor's strategy.*

The Principal Risks report (section 10) describes the risks that management believes the Company is most exposed to in terms of nature and magnitude.

Group Strategic Report (continued)

(6) Key Performance Indicators

Chrysaor employs an annual performance Scorecard to measure the performance of the business across several financial and statistical measures. These cover typical industry measures across the following categories: HSEQ plan; safety; asset integrity; production and efficiency; unit costs; cash flow; reserves; as well as qualitative measures on operated drilling and subsea activity performance.

Measure	2018	2017*
Production (mboepd)	105	99
Costs per barrel (\$/boe)	12.6	15.0
Capital investment (\$ million)	410	67
Operating cash flow after capital expenditure (\$million)	1,448	54
Net Debt (\$ million)	543	1,277
2P Reserves (mmboe)	327	350

*Represents 2 months of operations November to December 2017.

In 2019, the Scorecard will contain the same measures as 2018 but will also include measures to assess overall capital investment performance.

HSEQ Plan and Safety

The objective is to provide a visible suite of leading and lagging indicators to ensure operations are run safely and reliably. Underlying these scorecard measures are numerous other indicators used by the business to assess HSEQ performance across the full spectrum of our activities.

Chrysaor recorded no hydrocarbon releases in 2018 that could have escalated to a Major Accident Event.

Total Recordable Incident Frequency (TRIF) is measured separately for both operated and non-operated assets. Both measures showed improvement over the year despite three lost time injuries across the operated portfolio.

Deferred safety critical and maintenance backlog hours showed a significant reduction in the year compared to the position inherited from the previous operator and Chrysaor achieved the targets in this area. Following a year of ownership, the assets are now better understood, and going forward Chrysaor is targeting 500 hours of deferred safety critical time and 5,000 hours of maintenance backlog time per operated platform. This target is based on industry best practice and is governed by the limits of planning for corrective maintenance and the timing of work with TARs or shutdowns.

For 2019, the Company has set similar measures with magnitudes adjusted to reflect 2018 outturn positions, as well as the greater understanding and operational capabilities gained to date.

Production

The objective of this measure is to maximise production from the existing portfolio, in-fill or development well drilling, well optimising initiatives and from any acquisitions the Company undertakes.

The portfolio delivered 105mboepd on average during 2018, however the portfolio is capable of stable production of around 120mboepd.

Average production efficiency across the operated assets was 60%, which is below our aspiration. The main reasons for this under-performance were: the Lomond-Erskine pipeline PL781 being blocked between January and September until the partial pipeline replacement was completed; adverse winter weather conditions shut-in operated platforms for around two weeks from late February; the Beryl drilling programme was rescheduled deferring new production; and Buzzard was shut-in for around three weeks from late November due to corrosion under insulation on the main production pipeline.

For 2019, production expectations are within an expected production range of 120-130mboepd.

Capital Expenditure

Capital investment is a measure of the Group's organic investment through all lifecycle phases. Currently the portfolio is weighted towards producing assets so the majority of expenditure is spent on development and producing wells plus associated infrastructure. Of the total expenditure of \$410 million, property plant and equipment expenditure was \$382 million (including \$12 million of office equipment) and exploration and evaluation expenditure of \$28 million.

A similar weighting of capital expenditure is expected in 2019.

Costs Per Barrel

The objective of this measure is to minimise the direct costs of production whilst undertaking operations and producing safely and reliably.

Chrysaor achieved unit costs per barrel of \$12.60/boe which includes direct operating costs, tariff expense and insurance and is below our target of \$15/boe. This has been underpinned by good cost control and planning within the business.

2019's performance is expected to be at a similar level to 2018.

Cash Flow Before Interest and Tax

The objective of this measure is to recognise the importance of maintaining and improving the Company's financial position, balance sheet strength, repay debt and financing when due and provide shareholders with long-term returns.

Cash flow before interest and tax, which is equivalent to operating cash flow less capital expenditure, was \$1.1 billion for the year. Reflected within this is the significantly higher than forecast commodity prices that prevailed for most of 2018.

For 2019, provided commodity prices remain at similar levels to 2018, the expectation is that operating cash flow will be of a similar level.

Net Debt

Net debt is total debt less cash and cash equivalent balances which has significantly reduced during 2018, from \$1,277 million to \$542 million reflecting the highly cash generative nature of the portfolio and is sufficient to sustain operations, capital investment and debt repayment.

Cash generation in 2019 is expected to be similar to 2018 provided commodity prices remain at similar levels.

Reserves

This objective of this measure is to quantify the reserves that will provide for future production. Chrysaor look to increase reserves through enhanced recovery operations, successful drilling results and value enhancing acquisitions.

At 31 December 2018, proven and probable 2P reserves were 327mmboe compared to 350mmboe last year. At the effective date of acquisition of 1 July 2016, reserves were approximately 350mmboe, since then we have produced over 100mmboe and added reserves over the same period of more than 77mmboe. Looking ahead for 2019 the target is to more than replace production.

Operated Wells Activity Performance

The objective of this measure is to ensure that drilling and subsea operations are executed safely and profitably and on a best practice, timely and cost-effective basis.

Wells activities covered the drilling of the two Maria wells in 2018, well optimisation on existing wells and the partial replacement of the Lomond-Erskine PL781 pipeline. The RGVII underwent refurbishment prior to coming on hire to Chrysaor, and shake-down issues with the rig resulted in some delays with the Maria Crestal well which came on stream in December 2018. The Maria Terrace well was drilled thereafter with good operated performance. Regarding subsurface technical results, both wells are in the early stages of production and data is still being assessed. The replacement PL781 pipeline was delivered safely and set industry leading times to plan, execute and replace, delivering 9 months ahead of standard times.

For 2019, similar measures will be employed and enhanced by adding new indicators to measure the performance against approved investment levels and corresponding returns for both operated and non-operated assets.

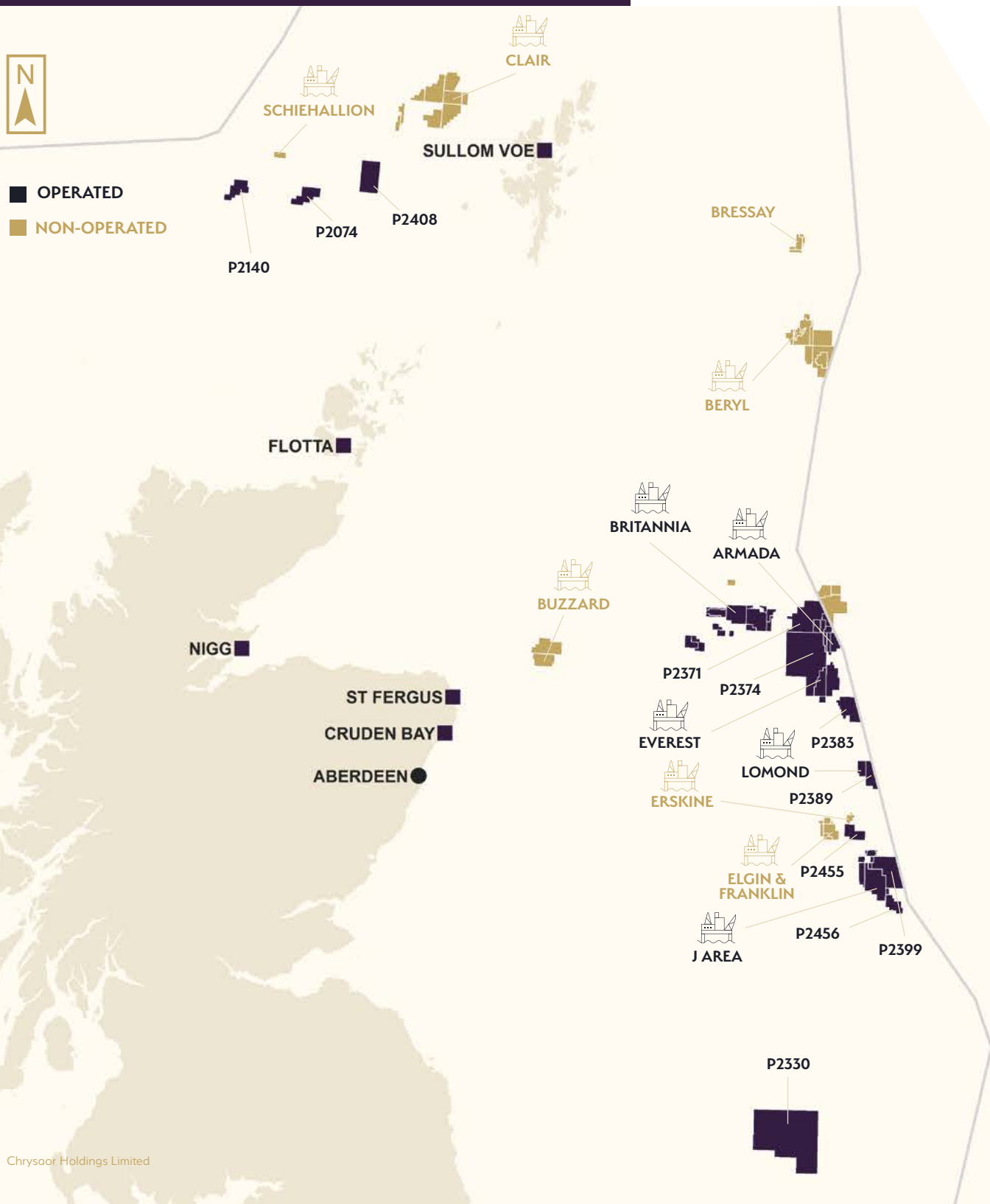


Signpost: The Financial Review (section 8) describes in detail the financial performance, position and cash flow of the Company.

Group Strategic Report (continued)

(7) Operations Report

Map illustrating Chrysaor UK asset portfolio (March 2019)



UK Background

Chrysaor's portfolio is diversified and balanced in terms of oil, gas and condensate production, operated and non-operated assets and number of different operators.

Operated Assets

Chrysaor operates three gas and condensate fields in the Central North Sea – Armada, Everest and Lomond hubs, all of which are now 100% owned. Chrysaor has undertaken significant drilling, TAR and pipeline replacement activities to maximise sustainable production through these hubs.



Armada

Chrysaor completed the acquisition of Spirit Energy's equity in the Armada hub on 1 June 2018 and now owns 100% equity in all of the Armada hub fields.

The Armada hub installation is a combined wellhead, production and accommodation platform processing fluids from the Drake, Hawkins and Fleming gas and condensate fields, with UK Sector tiebacks SW and NW Seymour and Maria. Also tied back to this installation are the third-party fields of Rev (Repsol Norge operated) and Gaupe (Shell operated and ceased production during 2018) in the Norwegian Sector.

Under the previous operator the provisional plan for the Armada hub had been to cease production from June 2018. Upon acquisition in November 2017, Chrysaor assumed operatorship of the Armada hub and took the strategic decision to extend the field life of the asset with plans for drilling on Maria, Mabel, Hawkins and Seymour fields in 2018–2020.

Drilling commenced on the first of the two Maria wells in 2Q 2018. The Rowan Gorilla VII (RGVII) rig was contracted following a refurbishment and despite normal shake-down and some reliability issues, the first Maria Crestal well was safely completed in 4Q 2018 and came on stream in December 2018 with the Maria Terrace well drilled soon after, commencing production in February 2019. The technical subsurface results are still being assessed.

Given the significant change in operational plans for the installation, Chrysaor is reviewing its maintenance and asset integrity plans to ensure asset life matches the new end of field life expectation. This has included completion of a major TAR during 2018. The purpose of the TAR was to complete essential safety critical inspections and recertification of safety critical equipment which has been successfully achieved.

Also, during 2018, there were a number of well interventions to increase Armada production from its existing well stock which has improved the performance of a number of Armada wells.

During 2018 safety and environmental performance continued to be good with Armada achieving five years LTI free.

The Armada hub produced 4.3mboepd net during 2018 (2017: 3.5mboepd).



Everest

Chrysaor owns 100% of the equity in the Everest hub.

The northern part of the field is produced through the North Everest facility, a combined wellhead, production and accommodation platform, producing gas and condensate, bridge-linked to the CATS (Central Area Transmission System) Riser platform. The installation also processes gas and condensate from the South Everest subsea wellheads located some 7.1 km south of the North Everest production platform and Everest East Expansion (EEE) wells, located approximately 6.8 km north-east of the installation. As ullage appears, future plans may include infill drilling.

Chrysaor has reviewed its maintenance and asset integrity plans to ensure asset life matches end of field life expectation. Many of the historical issues were addressed in the successful TAR, including spool replacement, internal inspections of key vessels and a significant reduction in corrosion anomalies.

The field produced 14.5mboepd net during 2018 (2017: 12.2mboepd).



Lomond

Chrysaor owns 100% of the Lomond field and has a 32% interest in the Erskine field which together form the Lomond hub.

The Lomond hub installation is a combined wellhead, production and accommodation quarters platform, processing gas and condensate from the Lomond and Erskine (Chevron operated) fields. Production is exported via infield pipelines to the CATS Riser platform at North Everest, from where it is exported to the Forties Pipeline System (FPS) and on to the CATS Terminal at Teesside.

Lomond performance suffered historically under the previous operator from poor uptime due to plant reliability and export issues impacting both Lomond and Erskine fields. In addition, the Lomond liquid export (PL781) pipeline had not been effectively pigged since 2009, resulting in it becoming blocked with wax twice historically before finally blocking for a third time in January 2018. Despite various attempts to unblock the pipeline, the installation of a 26 km partial pipeline bypass was completed in September 2018.

Lomond recommenced export in late September while Erskine achieved export in late October. Following a period of ramp up and testing, both fields returned to full production levels and a routine pigging programme was implemented along with a new wax inhibitor.

Chrysaor has reviewed its maintenance and asset integrity plans to ensure asset life matches end of field life expectation. During the TAR, the work on Lomond was extensive: over 450m of pipework replaced, a compressor machine change out and all mandatory fire and gas work completed.

As a result of the pipeline blockage in January, the Lomond hub only produced 3.1mboepd net during 2018 (2017: 6.8mboepd).

Group Strategic Report (continued)

Non-Operated Assets

The Chrysaor non-operated ventures team has developed close working relationships with the operating and equity partners. Chrysaor has leveraged these relationships to influence and promote improved performance to add value to the Chrysaor portfolio.



Beryl

Chrysaor has a c.39.5% interest in the Beryl area.

The Beryl area is operated by Apache, and Chrysaor has equity interests in the Beryl, Buckland, Callater, Ness, Nevis and Skene fields along with the Storr discovery. The Beryl oil and gas field has been developed in three phases. The first two phases developed the oil reserves using a large concrete platform (Beryl 'Alpha') in the south of the field, together with a smaller steel platform ('Bravo') to the north. A separate riser platform bridge-linked to Beryl 'Alpha' was installed in 1990 to deal with the third gas phase. Chrysaor continues to work closely with Apache to identify infill and near-field targets with a quick turnaround to production.

Alpha platform drilling was delayed to April 2018 from previously anticipated start date at the beginning of the year. Since then three new wells have been brought online, with drilling of the fourth under way. Overall results are within P50 reserves expectations. The campaign will switch to Beryl Bravo platform in 2Q 2019.

Two wells were drilled on Callater in the second half of 2018. The first well, CC2, found undepleted Cormorant sands and is on production. The second well, CB3, proved the deepest Beryl hydrocarbons in the Callater area. As a result, a successful net sand horizontal was completed with first oil in February 2019.

Storr Phase 1 Development was sanctioned in October 2018 and drilling commenced in January 2019, with production planned for 4Q 2019. The development plans were accelerated following partner intervention which brought forward first oil from 2022 to 2019.

The strategy to organically grow through exploration will continue by further

appraising the nearfield Tertiary plays with one exploration well being planned for 3Q 2019, plus a fast-track to 4Q 2019 of the Gair exploration well in which Chrysaor has 39.445% interest, aiming to appraise Northern P139 extension of the Garten Jurassic field (100% Apache) rapidly brought onstream. Positive results on the first Storr well deepening into the Triassic would potentially unlock further appraising and development potential of the Storr field accumulation.

In addition, Chrysaor is actively supporting Apache over critical areas in Operations and HSEQ functions jointly aimed at improving long-term performance. The fields produced 16.6mboepd during 2018 (2017: 18.4mboepd).



Bressay

The Bressay field is in Quad 9, east of Shetland. Chrysaor has an 18% interest and the field is operated by Equinor.

There is a large potential resource if an economic solution to the heavy oil development can be found. Lessons from Equinor's Mariner project, another heavy oil development, could prove to be beneficial and are being evaluated.



Buzzard

Chrysaor has a 21.7% interest in Buzzard, operated by CNOOC Petroleum Europe (previously known as Nexen) and one of the largest producing fields in the UK Continental Shelf since its start-up in 2007.

Located in the Outer Moray Firth, 100 km north-east of Aberdeen, the field straddles licenses P986 and P928 (blocks 19 and 20). Buzzard facilities comprise four bridge-linked steel platforms which support wellhead and production facilities, utilities/living quarters, and a further Hydrogen Sulphide stripping (PS) platform.

The Buzzard asset continued to deliver excellent operational performance during the first half of 2018, consistently producing with strong uptime. Production in the second half of the year was impacted by unplanned outages as a result of delayed rig mobilisation and corrosion under insulation on the main oil export pipeline which shut-in production for around three weeks from

mid-November.

The field produced 24.3mboepd during 2018 (2017: 23.1mboepd).

Buzzard's considerable net remaining reserves are being further developed through two sanctioned projects scheduled to deliver additional production in 2019-2020.

An infill drilling campaign commenced in 4Q 2018 from the wellhead platform, targeting multiple low-risk volumes within the main field area. Production from the first well was delivered on time and on budget with production rates still being established. The second well is currently being drilled with two further wells due for approval in the near future.

In addition, the Buzzard Phase 2 subsea tie-back project was approved and has commenced execution to develop new reserves in the northern area of the field, installing additional subsea production and water injection capability ready for start-up in 2021. Chrysaor is working closely with Buzzard partners to ensure that this asset continues to produce its reserves safely and efficiently into the late 2030s. During the year Chrysaor continued to see good results from effective relationships and early engagement with partners across collaboration initiatives, optimisation of well reservoir management and commercial contracts.



Elgin-Franklin

Chrysaor has a 14.1% interest in the Elgin-Franklin fields and 14.7% in Glenelg, which together form the Elgin hub operated by Total.

Elgin and Franklin are high pressure and high temperature gas and condensate fields, which started production in 2001. They are located approximately 240 km east of Aberdeen. Elgin was discovered in 1991 and Franklin in 1986. The Elgin hub facilities consist of a production, utilities and quarters (PUQ) platform at Elgin, bridge-linked to two wellhead platforms; a tied-back wellhead platform at Franklin, situated 5 km south of Elgin; and another wellhead platform at the West Franklin satellite field.

Uptime and well performance were strong in 2018 and the hub produced 17.0mboepd net during the year (2017: 15.1mboepd).

The Elgin-Franklin infill drilling campaign continued ahead of schedule. In 1Q 19, the Rowan Gorilla V rig moved to undertake the slot recovery of the F2 well which is being used as a donor well for the next Franklin infill well.

A second rig has been contracted to drill a further Elgin infill well which started drilling in November 2018. Production optimisation continued during 2018 with a production logging tool and reperforation adding incremental production as well as a successful three-well acid wash campaign using an intervention vessel.



J Area

Chrysaor has a range of equity interest (between 30-35%) in the J Area which is operated by ConocoPhillips.

The J Area comprises four fields: Jade, Joanne, Jasmine and Judy. The Judy and Joanne developments involve central processing and riser/separation platforms on Judy and a subsea development on Joanne. Development of the Jade field has been via a minimum facilities wellhead platform tied back to and controlled from the Judy platform. Jasmine, located 9 km west of Judy, has been developed using two bridge-linked platforms tied back to a new riser platform at Judy.

J Area progressed with its drilling campaign in 2H 2018 with the Jasmine West Limb being brought onto production and performing within expectations. The Jasmine Southern terrace exploration well encountered a column of hydrocarbons however estimated recoverable volumes were not considered sufficient to be commercial. The next well to be drilled in the sequence is the Julia well which will target a proven hydrocarbon accumulation in the reservoir.

Operating efficiency continues to be robust and for the year J Area produced 16.4mboepd (2017: 14.7mboepd).

During the year, through a collaborative partnership effort, a new gas transportation agreement was successfully negotiated with CATS which will result in no additional tariff expense to the partnership. The partners continue to challenge the operator on prudent cost control.

The joint venture partnership maintained its early project engagement resulting in the alignment of future development plans and approval of the next three wells in the drilling campaign which includes two Joanne North development wells and the Jasmine Merida exploration well, all of which will be spudded in 2019.

The J Area partners extended their relationship by jointly bidding and being awarded two licences in the 30th Licence Award Round including, most significantly, the Talbot discovery and the Dunnottar exploration prospect. The joint venture partnership continues to make good progress towards concept select for the Talbot development. There is also a Dunnottar commitment well due to be drilled in 2020.



Schiehallion

Chrysaor has a 10% interest in the Schiehallion field operated by BP. Schiehallion was first developed in the mid-1990s and has produced over 323 million barrels of oil since start-up in 1998.

The major Quad 204 re-development project delivered the new Glen Lyon FPSO to the field in 2017, along with extensive additional subsea infrastructure. This will unlock significant reserves extending Schiehallion field life out to the 2040s.

Chrysaor is actively working with its partners to optimise the ongoing infill campaign, reduce well costs and steer reservoir management. Production has steadily ramped-up since the Glen Lyon start-up in May 2017, reaching 130mboepd gross by May 2018, with a continued focus on driving vessel operational efficiency. The field produced 8.5mboepd net during 2018 (2017: 5.0mboepd).

Eight Schiehallion wells were completed during 2018 (four producers and four water injectors) and the performance of the Deep-Sea Aberdeen rig has been excellent. The rig will now move to the Alligin/Loyal fields (jointly owned by BP and Shell) for 12 months with the potential to return to Schiehallion in early 2020 for a second phase of drilling.

Chrysaor continues to work closely with the operator and the JV partners to optimise the work programme and in developing

the longer-term strategy for the asset. In particular, Chrysaor is actively engaged in optimising the 2019 well intervention programme to include chemical stimulations and choke change-outs on some of the water injection wells as well as a coil tubing intervention on the CP23 well. Chrysaor is also actively working with partners to optimise the second phase of the infill drilling campaign in terms of target identification and reduction in well costs.

Exploration and Appraisal

Chrysaor was highly successful in the UK 30th Licence Round Awards, having been awarded eight licences by the OGA on 23 May 2018, six of which are operated (five at 100% and one at 85% equity) and two are non-operated (31.5% equity) where ConocoPhillips is the operator. These eight licences cover fourteen blocks or part-blocks.

Chrysaor was awarded the core part of every licence that it applied for and is now actively reviewing potential material contingent resources and exploration position. The blocks cover exploration, appraisal and pre-development phases with two of the operated blocks containing previous discoveries of Mabel and Corrie with first drilling activities expected in early 2019.

Group Strategic Report (continued)

Norway

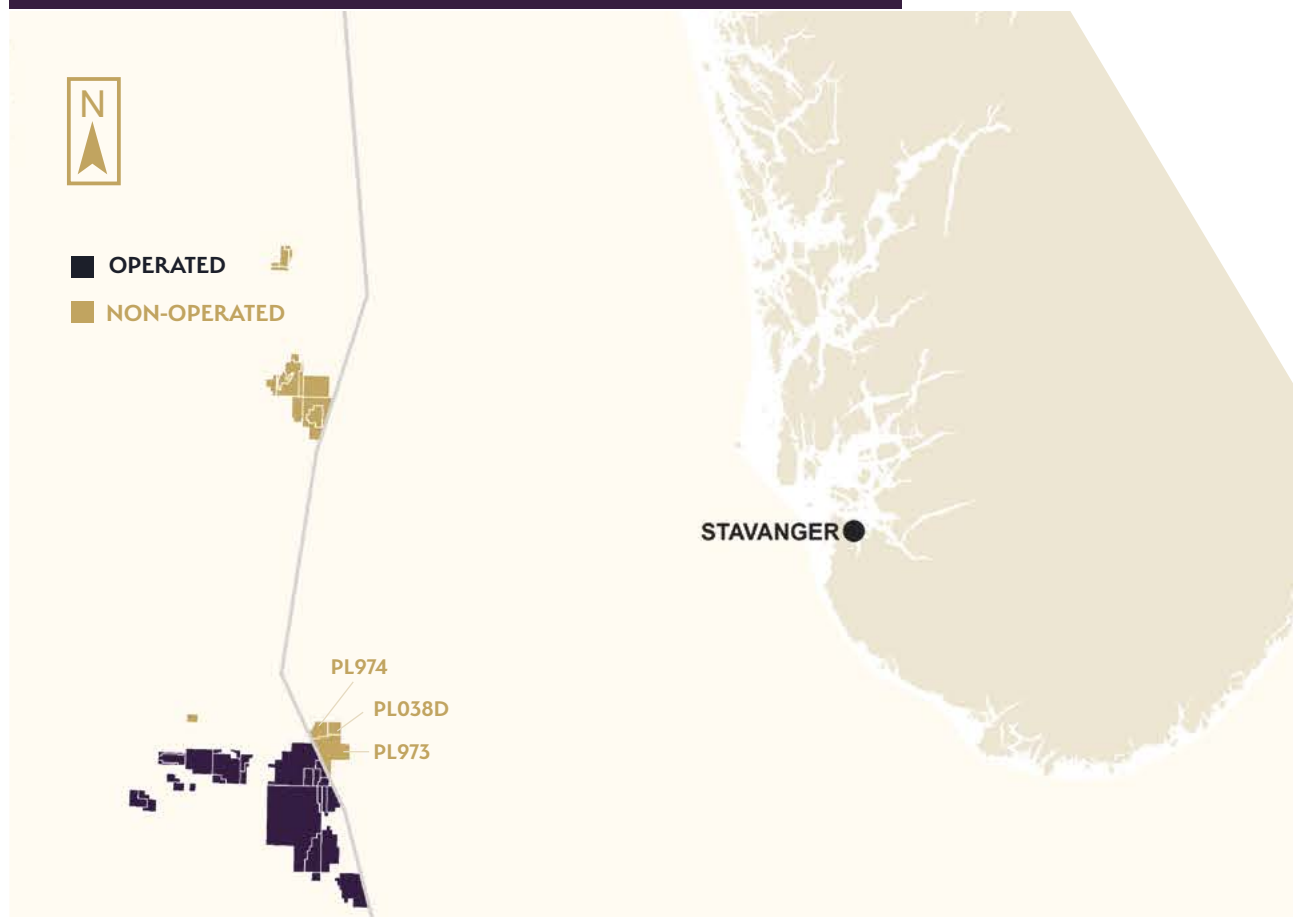
Chrysaor entered Norway during 2018 with the completion of a Sale and Purchase (SPA) agreement to acquire equity in the Grevling discovery. This agreement provides an option to extend the equity in the future and for Chrysaor to assume operatorship.

Chrysaor was successful in being awarded the two licences it applied for in the 2018 APA licence round awards which are located just south of Grevling. Chrysaor will also apply for several licences in the forthcoming 2019 APA licence round awards.

Chrysaor's application for Norwegian operator status is currently ongoing.

To support activities and operations in Norway, Chrysaor officially opened its Oslo office staffed by key management and technical personnel to manage the licences.

Map illustrating Chrysaor Norwegian asset portfolio (March 2019)



(8) Financial Report

The 2018 consolidated financial statements reflect the first full year of operations from the portfolio acquired on 1 November 2017 from Shell (the 'vendor'). Comparative figures for 2017 therefore represent two months of operations following completion of the acquisition and the legacy Chrysaor business.

Production and Revenue

Production for 2018 averaged 105mboepd compared to 99mboepd during the two months of November and December 2017 post-acquisition. During 2018, the production was affected by severe adverse weather in February and the shut-in of Lomond-Erskine due to the PL781 pipeline blockage. Production in November and December 2017 was lower than expected due to a three-week shutdown of the FPS pipeline during December.

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

Total revenue earned from production amounted to \$1,965.6 million (2017: \$313.5 million) after realised hedging losses on crude oil sales of \$51.8 million (2017: \$nil). Crude oil sales amounted to \$1,278.6 million (2017: \$203.6 million), with a post hedge realised price of \$61.06/bbl (2017: \$59.54/bbl). Gas revenue was \$516.8 million (2017: \$86.0 million), with a realised price of 43p/therm (2017: 43p/therm). Condensate sales and tariff and other revenue amounted to \$154.8 million (2017: \$23.9 million) and \$15.4 million (2017: \$nil) respectively.

Operating Profit

For the year ended 31 December 2018, EBITDAX was \$1,404.7 million (2017: \$194.7 million).

Operating profit was \$802.2 million compared to \$45.1 million for the year ended 31 December 2017. The prior year result reflects only two months contribution from the acquired assets including project transition costs, in addition to exploration expense in relation to the legacy portfolio.

Cost of sales, including field operating costs, transportation tariffs and depreciation, depletion and amortisation (DD&A) amounted to \$1,120.9 million (2017: \$190.1 million). Field operating costs, including insurance, less tariff income, totalled \$480.2 million (2017: \$85.8 million), equivalent to \$12.60/boe (2017: \$14.20/boe).

Cost of sales also included a \$50.8 million charge (2017: \$4.8 million charge) in respect of movements in overlift/underlift and in hydrocarbon inventories.

Group DD&A charges on oil and gas assets (including capacity rights) amounted to \$575.3 million (2017: \$99.6 million), equivalent to \$15.07/boe (2017: \$16.49/boe). Included in the DD&A charge is a credit of \$44.5 million (2017: \$nil) in respect of reductions to decommissioning provisions on assets with a fully written down book value.

General and administration expenses for the year amounted to \$24.7 million (2017: \$29.4 million), which included \$22.0 million relating to the transition period up to 31 October 2017.

Re-measurements for the year totalled \$0.8 million credit (2017: \$30.2 million charge) and consisted of two elements. A charge of \$0.5 million (2017: \$21.0 million) was recognised in respect of fair value changes in potential contingent consideration as a result of the acquisition from the vendor, linked to higher sustained future commodity prices and exploration success in Beryl and J Area. The Group retains an interest in a royalty stream resulting from the disposal of a pre-production development in 2015. A \$1.3 million credit (2017: \$9.2 million charge) was recognised in the year relating to the re-measurement of the future value attributed to this royalty stream.

Exploration and Evaluation Expenditure

During the year, the Group expensed \$18.6 million of exploration and appraisal activities, comprising \$7.9 million of pre-licence expenditure and \$10.7 million of licence relinquishments and uncommercial evaluations (2017: \$11.3 million and \$7.3 million respectively).

Net Financing Costs

Financing costs totalled \$270.3 million (2017: \$44.9 million), including debt facilities and loan note interest expenses of \$183.8 million (2017: \$31.1 million), bank and facility financing fees of \$37.2 million (2017: \$5.3 million), the unwinding of discount on provisions, primarily associated with future decommissioning obligations, of \$45.4 million (2017: \$7.6 million), and other interest of \$3.9 million under a financing arrangement with BHGE (2017: \$nil). Of the interest expense, \$83.9 million (2017: \$15.2 million) relates specifically to shareholder loan notes, which has been accumulated within borrowings for future settlement in accordance with the terms of the loan note agreements; and \$99.9 million (2017: \$15.9 million) relates to interest chargeable on the RBL and junior loan facilities.

Group Strategic Report (continued)

Taxation

Taxation charges amounted to \$209.5 million (2017: \$258.5 million credit), split between a current tax credit of \$4.6 million (2017: expense of \$6.0 million), and a deferred tax expense of \$214.1 million (2017: \$264.6 million credit) arising from the utilisation of deferred tax assets associated with losses recognised following the asset acquisition from the vendor.

Profit After Tax and Dividends

Profit after tax was \$368.9 million (2017: \$259.0 million). No dividends were paid or proposed in the current or prior year.

Capital Expenditure

During the year, the Group incurred capital expenditure of \$409.8 million (2017: \$66.6 million) consisting of property, plant and equipment mainly spent on J Area, Beryl, Buzzard, Schiehallion and the Armada drilling campaign of \$370.1 million (2017: \$35.5 million), exploration and evaluation expenditure of \$28.2 million (2017: \$8.8 million) and non-oil and gas assets of \$11.5 million (2017: \$22.3 million).

Acquisitions

Chrysaor acquired the remaining equity in the Armada, Maria and Seymour fields from Spirit Energy on 1 June 2018 and now holds 100% in the Armada hub. Chrysaor paid a nominal amount of consideration for these assets and allocated value to fixed assets of \$20.5 million, decommissioning provisions of \$27.9 million, net working capital balances of \$1.9 million and deferred tax balances of \$3.0 million, generating goodwill of \$2.9 million. Further details on the acquisition can be found in note 14 to the financial statements.

Cash flow

Operating cash inflow amounted to \$1,447.8 million (2017: \$54.0 million) after working capital movements. This operating cash flow was used in investing activities on capital expenditure of \$350.2 million, final payments of \$240.0 million to the vendor in full and final settlement of the two Sale and Purchase Agreements in relation to the 2017 acquisition, including deferred consideration of \$215.0 million.

Financing activities cash flow included the repayment of \$735.0 million (2017: \$nil) of the senior debt under the RBL facility as well as interest paid of \$132.8 million (2017: \$nil million) including \$115.6 million on the senior and junior debt facilities and \$17.2 million on charges and fees including a one-off fee for the \$500 million accordion debt facility expansion. Financing cash flows also include loan advances of \$20.4 million received in respect of a financing arrangement with BHGE.

Cash balances increased over the year by \$16.8 million (2017: \$295.8 million) to \$316.3 million (2017: \$299.5 million) at the end of the year.



Derivative Financial Instruments

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

In 2017 Chrysaor entered into a series of fixed price sales agreements. In addition, a financial hedging programme for both oil and gas consisting of swap and collar instruments has continued throughout the year ended 31 December 2018. Future production volumes

hedged under the physical and financial arrangements in place as at 31 December are set out below. Hedges realised in the year were in respect of crude oil only.

At 31 December 2018, Chrysaor's financial hedging programme showed a net positive fair value of \$375.2 million (2017: \$72.9 million negative fair value) with no ineffectiveness charge to the income statement (2017: \$0.3 million).

Hedge position	2019	2020	2021
Oil			
Volume hedged (mmboe)	16.06	12.04	5.60
Average price hedged (\$/bbl)	\$70.74	\$63.81	\$65.47
Gas			
Volume hedged (million therms)	647	516	310
Average priced hedged (p/therm)	45p	45p	47p

Group Strategic Report (continued)

Balance sheet and capital structure summary	2018	2017
	\$m	\$m
Non-current assets		
Property, plant and equipment & other intangibles	3,802	4,295
Goodwill	493	500
Other financial assets	192	15
Total non-current assets	4,487	4,810
Net current assets	478	131
Non-current liabilities		
Borrowings	1,708	2,414
Decommissioning and other provisions	1,476	1,759
Deferred tax	769	375
Other financial liabilities	75	73
Total non-current liabilities	4,028	4,621
Total equity		
Share capital and premium	235	235
Retained earnings	500	131
Cash flow hedge reserve	224	(44)
Other reserves	(23)	(2)
Total equity	936	320
Net borrowings		
Senior debt under the RBL facility	464	1,184
Junior debt	394	392
Shareholder loan notes	922	838
Financing arrangement with BHGE	24	-
Cash and cash equivalents	(316)	(300)
Total net borrowings	1,488	2,114

Net Debt

Net debt, consisting of senior debt and junior debt less cash balances, reduced by \$734.4 million in the year to \$542.3 million (2017: \$1,276.7 million) following a repayment on the RBL facility of \$735 million in the year. The asset base consists mainly of producing assets and so is currently highly cash generative. Therefore, the Group's 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 2018 has a straight-line amortisation which commenced on 31 December 2018 and reduces the \$2,000 million capacity on a semi-annual basis up to the facility's maturity date of 31 December 2022. However, Chrysaor, in line with market practice, intends to propose changes to the facility during 2019 as well as add additional reserves into the borrowing base which will provide increased debt capacity. The junior facility has its first repayment on 30 June 2019 followed by regular semi-annual monthly repayments until 30 June 2023.

Insurance

Chrysaor undertakes 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 principal financial risks that management considers the Group to be exposed to are:

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

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 include capital expenditure, cost per barrel, DD&A per barrel equivalent, EBITDAX, and net debt. See Glossary for further details.



Signpost: For a further discussion of these risks and uncertainties refer to *Principal Risks (section 10)*.

Group Strategic Report (continued)

(9) Risk Management

Risk management is embedded within Chrysaor’s daily activity and is designed to facilitate the delivery of the strategy, while protecting the Group’s employees, assets and environment.

The Board is responsible for the implementation of an effective risk management and internal control environment to enable the identification and robust assessment of Chrysaor’s principal risks.

The Company takes an integrated approach aligned with the requirements of ISO31000. All types of risk are assessed consistently using a single risk matrix across the business to measure and rank identified risks as illustrated below. In this way, credible risks are assessed within a single process against common criteria.

Identified risks are assessed against 12 specific categories covering the following areas:

- Safety of personnel, asset and environmental safety and security.
- Operational and financial failure of the strategy, organisation, assets and markets.

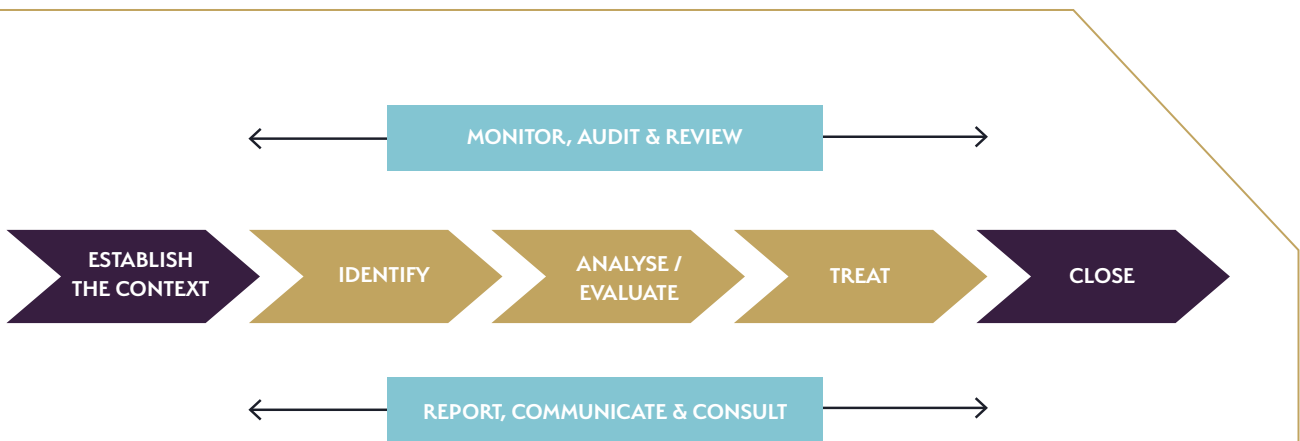
As a result, management has a clear and prioritised picture of the risks to which the Company is exposed, and which must be addressed against the balance of stakeholder risk and return appetite.

Accountability for the principal risks are directly overseen by senior management while accountability for managing the lower level risks is delegated to operational and functional leadership whose activities are subject to regular audit and assurance through the risk and opportunity management process.

The risk profiles revealed by these assessments against the single matrix is a combination of exposures over varying time

horizons. A full understanding of the risks facing Chrysaor is a critical component in safely and reliably running the business.

The principal risks, described in section 10, are those that the Board considers as the most significant due to their likelihood and magnitude of potential consequence and nature.



Chrysaor Business Management System (BMS)

Chrysaor has implemented its BMS which holds all mandatory policies, standards, guidelines and procedures and which provides instruction and performance expectations consistent with Chrysaor's core values and business principles to ensure Chrysaor achieves its stated business objectives safely and consistently.

It is the single authorised source of Company instruction and guidance applicable to both onshore and offshore activities within the business.

The BMS has four policies which are endorsed by the CEO. These are:

- Corporate Major Accident Prevention Policy (CMAPP)
- Health, Safety and Environmental Policy
- Quality Policy
- Tax, Anti-Bribery and Corruption Policies

To support the implementation of these policies, 38 standards have been developed and subjected to external audit to ensure they are clear and mutually consistent.

Specifically, the BMS is designed to identify and mitigate operational, Major Accident Hazard and business risks, and ensure legal compliance to regulatory requirements. The BMS also provides a governance framework, with guidance on the roles, responsibilities and accountabilities relating to risk management at the various levels within the business.

The BMS contains standards and supporting procedures which describe how the business would respond to a major incident or event as well as business continuity plans which are in place to ensure any loss of

key facilities or services can be quickly and efficiently mitigated. The plans are tested and exercised regularly using a variety of scenarios to ensure that key members of the various teams that would be deployed are familiar with their roles and are competent and confident to discharge their assigned duties.

As part of the continuing enhancement of the BMS, management has undertaken an external review of all documents to ensure these are internally consistent and aligned with Chrysaor's ways of working and the delivery of a performance of which the Company and its stakeholders can be proud.

Integral to this is ensuring clear definition of roles and responsibilities aligned with the Chrysaor organisation and addressing human factors, particularly within safety critical procedures. This review is expected to be complete by the end of 2019.

Further, Chrysaor's management plans to audit and assure against the BMS, and the enhancement programme described above, given the BMS documents will be in standard format and content.



Signpost: The principal risks that management believes the Company is exposed to are described in the *Principal Risks report (section 10)*.

Group Strategic Report (continued)

(10) Principal Risks

The oil and gas industry is exposed to numerous risks. The principal risks that the Board considers the Group is exposed to and which are considered to be the most significant due to their likelihood and magnitude of potential consequence as detailed below.

These cover the categories of strategic, operational and financial risk. The Board is responsible for maintaining a risk management and robust control environment within which there is identification, assessment and monitoring of risks.

a. Strategic - Delivery of Strategy

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

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

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

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

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

For 2019, the risk will be poor results from the operated and non-operated drilling programme, low returns from capital allocations, or the lack of performance of any material acquisitions.

b. Strategic - Compliance

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

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

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

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

For 2019, the risk is that people do not adhere to regulatory requirements, Chrysaor's policy and procedures or make poor decisions compromising the Company's compliance status.

c. Strategic - Stakeholder Relations

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

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

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

For 2019, the risk is that Chrysaor does not continue to maintain good stakeholder relationships.

d. Strategic - UK Departure from the European Union ('Brexit')

The Company has carefully evaluated the key potential outcomes of the United Kingdom's 2016 Referendum in favour of leaving the European Union. The Company does not currently expect that Brexit will have a material effect on its business.

For 2019, despite the minimal expected impact, the exit could result in increased regulatory complexity and compliance, delays in the supply chain or adverse foreign currency movements all of which may adversely affect Company operations and financial results.

e. Operational - Disruption to Production

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

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

For 2019, the key risk is the asset integrity of Chrysaor operated platforms and pipelines which may cause unplanned shut-ins. The expectation is for an improvement on 2018 with the Lomond-Erskine PL781 pipeline having been replaced and completion of full TAR and maintenance programmes on the operated assets in 2018.

f. Operational - Operational Safety

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

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

The importance of operational safety in mitigating the risk of a major operational incident is emphasised in the onboarding and site induction provided to all staff which highlight safety as a Chrysaor core value. Leadership at all levels fosters a culture of compliance with the BMS by both employees and vendors. This contains operational policies, standards, guidelines and procedures which promote workplace safety. Specialist standards and procedures implemented by competent and experienced staff cover well and development design, asset integrity and maintenance plans, Safety Case procedures, management assurance and peer reviews.

In addition, there are specific requirements relating to incident and emergency response plans and appropriate incident insurance policies. While operational safety at our non-operated assets is the responsibility of the asset operator, the non-operated ventures team work to quickly establish good working relationships with our partners. These promote an open culture within which information, incident alerts, expertise and lessons are freely shared in both directions.

For 2019, the risks are that people make poor decisions which compromise safety, however enhanced organisational capability, engagement on safety and ways of working are expected to lead to continuing improvements in safety metrics.

g. Operational - Asset Performance and Drilling Results

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

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

For 2019, the risk is poor performance from either operated or non-operated drilling activity. For operated drilling, Chrysaor continues to use the RGVII rig for drilling and so familiarity with the rig, working practices and continuity of workforce is expected to deliver improved results.



Group Strategic Report (continued)

h. Operational - Cyber Security

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

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

Chrysaor is ensuring that its IT processes and procedures adhere to industry standard best practices, such as the ISO27001/2 IT Security Framework. Mandatory information security training is provided for all employees and contractors and IT security engage with staff through a monthly cyber newsletter, monthly phishing simulations and an Information Security Website.

Chrysaor has selected several industry leading vendors to further strengthen its security position and help to form the backbone of the Chrysaor Cyber Security estate. Compliance and assurance will be maintained through regular penetrations tests, threat hunting, physical security awareness sessions and security testing of the business-critical systems, as well as incident response planning and training. A proactive approach to information security events is further strengthened by the use of Artificial Intelligence and Data Analytics.

For 2019, the risks and threats continue to rise as attackers continually look for weaknesses within company systems in an effort to attempt a major breach.

i. Financial - Commodity Prices and Foreign Exchange

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

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

Mitigation comes in the form of a prudent business planning process and Board-approved hedging programmes, which are primarily driven by minimum hedging requirements under the RBL facility. Additional discretionary hedging programmes are also available. Foreign exchange is managed by cash management processes limiting exposure to surplus currencies.

For 2019, the Group has a significant proportion of the year's production hedged, however, Chrysaor will look to maintain or increase hedged production volumes if commodity price conditions allow.

j. Financial - Cash Flow, Liquidity and Funding

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

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

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

For 2019, the key risk is that commodity prices fall, costs increase, and/or operational performance is poor, restricting capital investment and acquisition capability.

k. Climate Change Legislation and Regulation

Chrysaor expects that climate change legislation and regulation is likely to increase which, whilst this will bring its intended benefits, is likely to increase associated costs and administration requirements as well as potentially limiting the investment capital available to the industry.

(11) Responsible operations

Process safety/Major Accident Hazard Management

The safeguarding of people, the environment, assets and reputation through Major Accident Event prevention is Chrysaor's top priority. This is achieved through a process of Major Accident Hazard identification and the implementation of physical and procedural controls, referred to as barriers, to mitigate the risks arising from these to a level which is demonstrably As Low As Reasonably Practicable (ALARP).

Through effective leadership, Chrysaor has established a balance between the management of process risk and the management of occupational health and safety risk thereby ensuring a broad understanding of the risks to people, the environment and the business.

The hazards and controls are systematically recorded and are managed utilising established, well founded industry methodologies to represent the barriers to an event occurring or which limit the impact should one occur. These evaluations and descriptions of the controls applied are recorded in each asset's Safety Case which must be submitted to the Offshore Safety Directive Regulator (OSDR) for acceptance before a facility can be operated.

The condition and effectiveness of these barriers in operation are measured and managed through a structured programme of assurance activities. These include weekly reviews offshore by Supervisors and two-weekly and monthly reviews by Offshore Installation Managers involving onshore staff including Technical Authorities as part of Chrysaor's asset integrity assurance process. Barrier condition receives additional oversight from external independent verifier (DNV) and through regulatory inspections by the OSDR.

Occupational Health and Safety

The safety and wellbeing of staff and the provision of a safe place of work is a key focus area for Chrysaor. The development of the BMS is a key enabler in providing a safe system of work designed to prevent occupational injury or illness. Efforts to sustain workplace safety are complemented by welfare programmes addressing personal health and wellbeing. A comprehensive calendar to support the health and wellbeing campaign has been launched for both onshore and offshore.

Environment

Environmental management is an integral part of the BMS which is externally certified to ISO14001(2015). All Chrysaor activities on the United Kingdom and Norwegian Continental Shelves are included within the scope of this internationally recognised certification.

Reporting and Awareness

HSEQ events and statistics are recorded and reported regularly to management and to the Board. The same is made available to all staff and discussed within town hall meetings to ensure the widest possible awareness and understanding.

Chrysaor ensures the integrity of reported data to support performance reporting and to meet statutory reporting obligations. The insights from this analysis provide a level of assurance that risk is being appropriately managed and statutory operational permit conditions are being met.



Corporate Governance

(12) The Board

Linda Cook (Chairman)

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

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

Phil Kirk (Chief Executive Officer)

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

Mr. Kirk has been a member of the Board of Oil and Gas UK since 2013 and is currently Operator Council Co-Chair and Vice Chair of the Board.

Andrew Osborne (Chief Financial Officer)

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

Mark Brown (Non-Executive Director)

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

Bob Edwards (Non-Executive Director)

Bob Edwards currently serves as a Partner of NGP Energy Capital and is a former Partner of the Energy Practice at McKinsey & Company. He was also an executive at BP, Marathon, and Brown and Root International.

Steve Farris (Non-Executive Director)

G. Steven Farris served as Chairman and Chief Executive Officer of Apache Corporation, an oil and natural gas exploration and production company with operations in the United States, Canada, the United Kingdom sector of the North Sea, Egypt, and Australia. Mr. Farris was named Chairman of Apache in January 2009, upon the retirement of company founder Raymond Plank. He was promoted to President in 1994 and Chief Executive Officer in May 2002. Mr. Farris joined Apache in June 1988

as Vice President of Domestic Exploration and Production and was promoted to Senior Vice President in May 1991. Prior to joining Apache, Mr. Farris was Vice President of Finance and Business Development at Terra Resources, a subsidiary of Sempra Energy.

John Hogan (Non-Executive Director)

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

Andrew Jamieson (Non-Executive Director)

Andrew Jamieson has served as a Director of Höegh LNG since 2009, GTT since 2015 and previously served on the Board of Woodside Energy. Mr. Jamieson retired from Royal Dutch Shell plc in 2009 where he has served as Executive Vice President of Gas and Projects and Member of the Gas & Power Executive Committee since 2005. At Shell he held positions in The Netherlands, Denmark, Australia and Nigeria. Mr. Jamieson holds a Ph.D. degree from Glasgow University.

R. Blair Thomas (Non-Executive Director)

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

Corporate Governance (continued)

(13) Governance and Compliance

Chrysaor is a large private company and management continues to apply the principles of good corporate governance and compliance. The company is not subject to the UK Corporate Governance Code (the 'Code') and directors are cognisant of the provisions of the Wates Corporate Governance principles for large private companies which are effective from 1 January 2019. Therefore during 2019 the Board will consider and adopt the code which it believes most appropriate for the company to operate under.

The Chrysaor Board continues to build a good governance framework which is supported by the clear vision and strategy, core values and business principles which come together to ensure successful delivery of the Company's strategy and performance for the long-term benefit of all stakeholders.

The Board's focus in 2018 has been to ensure that following the 2017 acquisition, the Company is embedding a healthy culture amongst its employees and stakeholders. In addition the Company has prioritised implementing a robust and stable internal control environment and performance reporting process that provides the Board with appropriate operational and financial information for strategic decision making. This in turn will allow it to deliver solid performance, and grow the business both organically and by acquisition, creating a market leading North European E&P Company.

In 2019 the Board expects to focus on continuing to grow and mature the business to become a partner of choice to all stakeholders' in the revitalised North Sea region, whilst continuing to deliver performance in an ongoing safe and reliable manner.

Purpose and Leadership

The Chrysaor Board is led by Non-Executive Chairman, Linda Cook and further comprises six Non-Executive Directors and two Executive Directors. The roles of the Chairman and Chief Executive Officer are separate. The Chairman is responsible for the effectiveness of the Board, ensuring constructive discussions and that through the Executive Directors, Board members have necessary and timely information to facilitate meaningful discussions.

The directors are appointed by the investing shareholders and therefore have a clear understanding of shareholder interests and the business needs. There have been no changes to the Board during the year.



Signpost: For more on core values and business principles, see the *Organisation and Culture report (section 3)*.

Accountability and Responsibilities

The role of the Board is the collective responsibility of the governance and delivery of the long-term success of the Company on behalf of its shareholders. The Board approves strategy and ensures the Company is provided the appropriate direction and resources to meet the strategic goals.

The Board is accountable to the shareholders for the delivery of the Company strategy and performance. The Chrysaor Board meets on a regular basis to review business performance, set strategic goals and determine key policies for the effective operation of the business in an ethical and legally compliant manner. In addition, the Board considers assurance and compliance activities and risk management functions.

Through day to day activities, the Executive Board members seek to lead by example and employ and demonstrate the Chrysaor core values and business principles, to develop a healthy corporate culture and good people practices with all internal and external stakeholders.

Matters reserved for the Board and for which they have responsibility are contained in Schedule 1 of the Subscription & Shareholders' Deed relating to Chrysaor Holdings Limited dated 30 January 2017. These matters range from, among other things, approving annual budgets, making changes to the constitutional documents or capital structure of the Company, to arranging additional financing for the Company or entering into financial commitments on behalf of the Company, in each case above a certain threshold.

Opportunity and Risk

The Board provides oversight to risk management and ensures there is a balance between the targeted investment return and associated risk appetite of shareholders. The risk management systems are underpinned by a continuing focus on building a robust internal controls framework and supported by company core values and business principles, which set out Chrysaor's commitment to maintaining a high standard of integrity and ethical conduct. The business principles are supported by a clear organisation structure, roles and responsibilities and authority delegation to the appropriate level in the Company.

Chrysaor has a number of key governance, policy and compliance documents, such as the Anti-Bribery and Corruption Policy, the Anti-Slavery and Human Trafficking Policy, as well as the Legal Compliance Standard and Manual. These documents are framed in line with UK legislation and modern industry practices, and delivered through a bespoke Compliance Programme for the business. It is made clear to stakeholders that compliance is mandatory and where there are concerns then the Board prompts the visibility of any unethical or misconduct activities.

Furthermore, the BMS contains the Company's policies, standards, guidelines and procedures to ensure that the Company operates in a safe and reliable manner in accordance with regulatory requirements and good business practice.

For more on the internal controls framework and the BMS, see the Principal Risks and Risk Management reports.

Corporate Governance (continued)

Effectiveness and Composition

The composition of the Board ensures a balanced, independent and accountable approach to the ultimate aim of the business of delivering superior equity returns and growth. The experience of the Board is diverse which brings a wide range of knowledge and skills.

The Board met seven times in 2018 and all meetings were well attended by directors.

Stakeholder Engagement

Engagement with all stakeholders to create and preserve value and manage risk is a key priority, with demonstration of Chrysaor's core values leading to fair and balanced openness and transparency with all stakeholders. All shareholders are represented by the Board members and there is also regular communication and provision of detailed information to shareholders.

Chrysaor actively engages with other major stakeholders which include regulatory bodies, government authorities, financial institutions, vendors and staff, all of whom the Board is focused on creating and maintaining strong relationships with and ensuring reporting and compliance obligations are met. In 2018, the Chrysaor Compliance Programme continued to be improved and developed through various initiatives. These include continuing engagement with key contractors and suppliers to ensure that they have effective awareness of Chrysaor's values and business principles. This keeps them apprised of expectations with respect to compliance matters in the work they do for Chrysaor as well as Chrysaor's business principles and key policies across the UK and Norway.

Furthermore, there is regular communication to all employees and contractors via town halls, sharing regular updates on performance and company business. Engagement also includes guidance on policies, practices, responsibilities and obligations which are facilitated via the online Chrysaor Learning platform.

Remuneration

The Board is responsible for setting remuneration for the Executive Directors and leadership team, which is reviewed annually and benchmarked bi-annually using independent external reviews to ensure employees are remunerated 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 the Company's long-term strategy and annual performance via its Scorecard, which includes both operational and financial measures.

The remuneration structures are designed to be transparent and balanced, considering all employees. The Scorecard is clear and straightforward such that individuals can see how their contributions and behaviours affect the corporate performance and reputation.



Signpost: For further details see Key Performance Indicators (**section 6**) and Organisation and Culture reports. (**section 3**).

(14) Regulatory Compliance

Operated by Chrysaor, the Armada, Lomond and North Everest offshore installations are regulated by the Offshore Safety Directive Regulator (OSDR), a partnership between the Health and Safety Executive (HSE) and the 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 OGA.

All necessary permits and consents to achieve the compliant operation of the assets were developed, submitted and put in place at completion of the acquisition from Shell in November 2017, and have been maintained, updated and renewed as required throughout 2018. The permitry required to facilitate the 2018 drilling programme has been a key focus of activity.

As installation, pipelines and wells operator and employer, Chrysaor is responsible for the provision of a safe system and place of work at its onshore and offshore facilities. This expectation is delivered through the application of the BMS. The contents of the Business Management System are continually under review and revision to ensure alignment with Chrysaor's core values, business principles and stated business and strategic objectives. Conformance with the BMS as demonstrated through audit and other assurance activities remains the principal means by which Chrysaor demonstrates compliance with its statutory duties and business goals and objectives.

There were no serious incidents, accidents or permitry non-compliance reported during the year.





Directors' Report

(15) Directors' Report

The directors present their report for the year ended 31 December 2018.

Directors

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

Linda Cook	Non-Executive Chairman
Phil Kirk	Executive Director
Andrew Osborne	Executive Director
Mark Brown	Non-Executive Director
Bob Edwards	Non-Executive Director
Steve Farris	Non-Executive Director
John Hogan	Non-Executive Director
Andrew Jamieson	Non-Executive Director
R. Blair Thomas	Non-Executive Director

The Board and directors reflect the governance and shareholder structure under the shareholders' agreements of 30 January 2017.

Secretary

Howard Landes

Results and Dividends

The Group's profit for the year after taxation amounted to \$368.9 million (2017: \$259.0 million). The directors do not recommend the payment of a dividend (2017: \$nil).

Financial Instruments

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

Financial instruments can give rise to foreign currency, interest rate, credit, commodity price and liquidity risk. Information on these risks is set out above in the Strategic Report and note 23 to the financial statements.

During the year the Group 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 the Group's future underlying oil and gas revenues. Back to back agreements were put in place for the derivative contracts with two fellow subsidiaries of the Group, Chrysaor Limited and Chrysaor North Sea Limited.

Directors' Liabilities

At the date of signing these financial statements, the Group does not have any indemnity provisions to or in favour of one or more of its directors against liability in respect of proceedings brought by third-parties, subject to the conditions set out in the Companies Act 2006. The Company also maintains directors' and officers' liability insurance cover, the level of which is reviewed annually.

Disabled employees

Chrysaor aims to provide an optimal working environment to suit the needs of all employees, including those of employees with disabilities. Chrysaor commits to support employees with disabilities enabling them to remain safely in continuous employment, and aims to ensure that no individual suffers discrimination because of any protected characteristic.

Employees

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

Statement of Directors' Responsibilities

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

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

Directors' Report (continued)

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 European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance.
- State whether the Group and Company financial statements have been prepared in accordance with IFRS as adopted by the European Union.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

Post Balance Sheet Events

On 18 April 2019 Chrysaor E&P Limited, a subsidiary of Chrysaor Holdings Limited, announced it had signed an agreement to acquire ConocoPhillips' UK oil and gas business ("ConocoPhillips UK") for \$2.675 billion. The three most material assets in the portfolio include new operated hubs in the UK Central North Sea - Britannia and J-Block; together with a non-operated interest in the Clair Field, West of Shetland. The assets being acquired produced 72,000 barrels of oil equivalent per day (boepd) in 2018. The transaction has an effective date of 1 January 2018 and is expected to complete in late 2019.

Going Concern

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

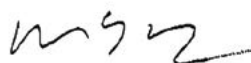
Chrysaor's management forecasts show that for the next twelve months and the foreseeable future, the Group will be able to operate and generate sufficient operating cash flow to sustain investment in discretionary capital projects, as well as repay debt as it falls due.

Disclosure of Information to the Auditors

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

Auditors

In July 2018, Ernst & Young LLP resigned as auditors of the Company and PricewaterhouseCoopers LLP were appointed. Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.



On behalf of the Board
Andrew Osborne (Director)
 25 April 2019



Independent Auditors' Report to the Members of Chrysaor Holdings Limited

Report on the Audit of the Financial Statements

Opinion

In our opinion, Chrysaor Holdings Limited's Consolidated financial statements and Company financial statements (the "financial statements"):

- Give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit, the Company's loss and the Group's and the Company's cash flows for the year then ended; and
- Have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company balance sheets as at 31 December 2018; the Consolidated and Company income statements and statements of comprehensive income, the Consolidated and Company statements of cash flows, and the Consolidated and Company statements 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 FRC's Ethical Standard, as applicable to listed entities, 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 North Sea. This is the first full year of operation following the acquisition of the business from Shell in the prior year. On 1 June 2018, the Group acquired the remaining equity in Armada, Maria and Seymour fields from Spirit Energy and so now holds 100% in the Armada hub. The Group has operated through 8 entities ("components"). Our audit was planned to take into account the impact of oil and gas market conditions, the trading performance for the year and the additional acquisition on the results and activities of the Group.



Overview

- Overall Group materiality: \$18.5 million, based on 5% of profit before tax.
- Overall Company materiality: \$9.2 million, based on 2% of Total non-current liabilities.
- We conducted full scope audits on three components and the audit of specified balances and classes of transactions on a further three components. The scope of work at each component was determined by its contribution to the Group's overall financial performance and its risk profile. The Group engagement audit team performed the audit procedures over all the entities. The six components where we performed audit work accounted for approximately 100% of Group revenue.
- Valuation of Decommission provision.

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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent Auditors' Report to the Members of Chrysaor Holdings Limited (continued)

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.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of Decommissioning provision (Note 20)</p> <p>Decommissioning provisions are inherently subjective given they are based on estimates of costs that will be settled in the future.</p> <p>Decommissioning provisions are also affected by changes in estimated costs, oil and gas reserve estimates, discount rates and the estimated date on which production is forecast to cease.</p> <p>Management has performed a detailed estimate for the decommissioning provision for its operated assets and obtained updated estimates for the non-operated assets in 2018.</p>	<p>We focused on this area as it involves complex and subjective judgements about the future decommissioning plans of both Chrysaor and of the Operators of fields in which Chrysaor has a non-operating interest. Our audit procedures included:</p> <ul style="list-style-type: none"> • We have tested the models used by management to determine the decommissioning cost estimate, including testing the integrity of the model for mechanical and mathematical accuracy. • We have tested the reasonableness of management's discount rate and inflation rate used for the decommissioning provision. We involved our valuation specialists to corroborate the appropriateness of the rates used by forming an independent view of the rate using third party source data to calculate a range of acceptable rates and comparing this to the rate used by management. • We assessed the objectivity and competency of the external specialist utilised by management in relation to the cost estimates. • We have assessed the expected cessation of production dates to confirm they were consistent with the valuation model used for the impairment assessment of goodwill. • Corroborated the movements in the provisions to supporting evidence. • We considered the accounting treatment of decommissioning and disclosures under IFRS criteria, to conclude whether these were appropriate in all circumstances. <p>Based on the work performed we conclude that the valuation of the decommissioning provision has been appropriately determined and in accordance with IAS 37.</p>

We determined that there were no key audit matters applicable to the company to communicate in our report.

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 and the Company, the accounting processes and controls, and the industry in which they operate.

Chrysaor is a UK North Sea independent oil and gas company with a diversified portfolio of interests in production hubs in the UK and Norwegian North Sea. It operates three operated hubs and has interests in five non-operated fields. During the year the Group has operated under its pre-existing operating structure through eight entities ("components"). Our audit was planned to take into account the impact of market conditions on the results and activities of the Group.

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:

Key audit matter	Group financial statements	Company financial statements
Overall materiality	\$18.5 million	\$9.2 million
How we determined it	5% of profit before tax	2% of total non-current liabilities
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that total long term liabilities is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

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 across components was between \$18 million and \$1 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Board that we would report to them misstatements identified during our audit above \$0.925 million (Group audit) and \$0.460 million (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and

Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Report and Financial Statement 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.

Independent Auditors' Report to the Members of Chrysaor Holdings Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 41-42, 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 and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors as a body for fulfil your obligation in accordance with our engagement letter dated 27 July 2018 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.



Kevin Reynard

PricewaterhouseCoopers LLP

Chartered Accountants

Aberdeen

26 April 2019

Consolidated Income Statement

for the year ended 31 December	Note	2018 \$000	2017 \$000
Revenue	4	1,965,602	313,500
Cost of sales		(1,120,867)	(190,146)
Gross profit		844,735	123,354
Exploration and evaluation expenses	5	(7,917)	(11,323)
Exploration costs written-off	5	(10,731)	(7,276)
Re-measurements	5	810	(30,204)
General and administrative expenses		(24,687)	(29,447)
Operating profit		802,210	45,104
Finance income	7	46,484	260
Finance expenses	7	(270,293)	(44,893)
Profit before taxation		578,401	471
Income tax (expense)/credit	9	(209,501)	258,527
Profit for the financial year		368,900	258,998

Consolidated Statement of Comprehensive Income

for the year ended 31 December	2018 \$000	2017 \$000
Profit for the financial year	368,900	258,998
Items that may be classified to income statement in subsequent periods:		
Fair value gains/(losses) on cash flow hedges	447,840	(72,911)
Tax (expense)/credit on cash flow hedges	(179,584)	29,164
Currency exchange differences	(20,763)	8,287
Total comprehensive income/(loss) for the year, net of tax	247,493	(35,460)
Total comprehensive income for the financial year	616,393	223,538
Total comprehensive income attributable to:		
Equity holders of the parent	616,393	223,538

Company Income Statement

for the year ended 31 December	Note	2018 \$000	2017 \$000
Other operating expenses		–	(385)
General and administrative expenses		(9,836)	(4,835)
Operating loss		(9,836)	(5,220)
Finance income	7	117	29,251
Finance expenses	7	(85,243)	(15,203)
(Loss)/profit before taxation		(94,962)	8,828
Income tax credit	9	745	3
(Loss)/profit for the financial year		(94,217)	8,831

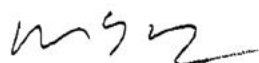
Company Statement of Comprehensive Income

for the year ended 31 December	2018 \$000	2017 \$000
(Loss)/profit for the financial year	(94,217)	8,831
Items that may be classified to income statement in subsequent periods		
Currency exchange differences	–	20,649
Total comprehensive income for the financial year, net of tax	–	20,649
Total comprehensive (loss)/income for the financial year	(94,217)	29,480
Total comprehensive (loss)/income attributable to:		
Equity holders of the parent	(94,217)	29,480

Consolidated Balance Sheet

as at 31 December	Note	2018 \$000	2017 \$000
Assets			
Non-current assets			
Goodwill	10	493,084	500,080
Other intangible assets	11	58,929	45,375
Property, plant and equipment	12	3,743,825	4,249,439
Other financial assets	22	191,514	14,673
Total non-current assets		4,487,352	4,809,567
Current assets			
Inventories	15	89,791	91,563
Trade and other receivables	16	231,530	258,499
Other financial assets	22	299,049	3,000
Cash and cash equivalents	17	316,311	299,541
Total current assets		936,681	652,603
Total assets		5,424,033	5,462,170
Equity and liabilities			
Equity			
Share capital	24	22	22
Share premium		234,801	234,801
Cash flow hedge reserve - intrinsic		219,678	(43,747)
Cash flow hedge reserve – extrinsic		4,831	–
Currency translation reserve		(23,182)	(2,419)
Retained earnings		500,092	131,192
Equity		936,242	319,849
Total equity		936,242	319,849
Non-current liabilities			
Borrowings	21	1,709,317	2,414,333
Provisions	20	1,475,734	1,758,712
Deferred tax	9	768,746	374,606
Other financial liabilities	22	75,486	72,740
Total non-current liabilities		4,029,283	4,620,391
Current liabilities			
Trade and other payables	19	296,434	479,520
Borrowings	21	95,572	–
Other financial liabilities	22	66,502	42,410
Total current liabilities		458,508	521,930
Total liabilities		4,487,791	5,142,321
Total equity and liabilities		5,424,033	5,462,170

The notes on pages 56 to 97 form part of these financial statements. The financial statements on pages 47 to 97 were approved by the Board of Directors on 25 April 2019 and signed on its behalf by:

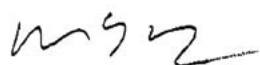


Andrew Osborne (Director)
Company No. FC027988; UK Establishment No. BR009700

Company Balance Sheet

as at 31 December	Note	2018 \$000	2017 \$000
Assets			
Non-current assets			
Property, plant and equipment	12	–	–
Deferred tax	9	–	3
Investments	13	–	–
Amounts due from subsidiary undertakings	13	1,093,192	1,094,030
Total non-current assets		1,093,192	1,094,033
Current assets			
Trade and other receivables	16	18,660	46,659
Cash and cash equivalents	17	19,643	3
Total current assets		38,303	46,662
Total assets		1,131,495	1,140,695
Equity and liabilities			
Equity			
Share capital	24	22	22
Share premium		234,801	234,801
Currency translation reserve		(24,740)	(24,740)
(Accumulated losses)/Retained earnings		(2,058)	92,159
Total equity		208,025	302,242
Non-current liabilities			
Borrowings	21	922,003	838,092
Total non-current liabilities		922,003	838,092
Current liabilities			
Trade and other payables	19	1,467	361
Total current liabilities		1,467	361
Total liabilities		923,470	838,453
Total equity and liabilities		1,131,495	1,140,695

The notes on pages 56 to 97 form part of these financial statements. The financial statements on pages 47 to 97 were approved by the Board of Directors on 25 April 2019 and signed on its behalf by:



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

Consolidated Statement of Changes in Equity

	Share capital \$000	Share premium \$000	Cash flow hedge reserve- intrinsic \$000	Cash flow hedge reserve- extrinsic \$000	Currency translation reserve \$000	Undeclared dividend reserve \$000	Share option reserve \$000	(Accumulated losses)/retained earnings \$000	Total equity \$000
As at 1 January 2017	1,794	167,437	–	–	(10,706)	154,498	65	(257,540)	55,548
Profit for the financial year	–	–	–	–	–	–	–	258,998	258,998
Other comprehensive (loss)/income	–	–	(43,747)	–	8,287	–	–	–	(35,460)
Share options exercised	2	59	–	–	–	–	(65)	8	4
Cumulative dividends not paid	–	–	–	–	–	2,084	–	(2,084)	–
Cancellation of undeclared dividends	–	–	–	–	–	(156,582)	–	156,582	–
Cancellation of shares	(1,796)	–	–	–	–	–	–	(24,756)	(26,552)
Issue of new shares	22	67,918	–	–	–	–	–	(16)	67,924
Share issue expenses	–	(613)	–	–	–	–	–	–	(613)
At 31 December 2017	22	234,801	(43,747)	–	(2,419)	–	–	131,192	319,849
Profit for the financial year	–	–	–	–	–	–	–	368,900	368,900
Other comprehensive income/(loss)	–	–	263,425	4,831	(20,763)	–	–	–	247,493
As 31 December 2018	22	234,801	219,678	4,831	(23,182)	–	–	500,092	936,242

Company

Statement of Changes in Equity

	Share capital \$000	Share premium \$000	Currency translation reserve \$000	Undeclared dividend reserve \$000	Share option reserve \$000	(Accumulated losses)/ retained earnings \$000	Total equity \$000
As at 1 January 2017	1,794	167,437	(45,389)	154,498	65	(46,406)	231,999
Profit for the financial year	–	–	–	–	–	8,831	8,831
Other comprehensive income	–	–	20,649	–	–	–	20,649
Share options exercised	2	59	–	–	(65)	8	4
Cumulative dividends not paid	–	–	–	2,084	–	(2,084)	–
Cancellation of undeclared dividends	–	–	–	(156,582)	–	156,582	–
Cancellation of shares	(1,796)	–	–	–	–	(24,756)	(26,552)
Issue of new shares	22	67,918	–	–	–	(16)	67,924
Share issue expenses	–	(613)	–	–	–	–	(613)
At 31 December 2017	22	234,801	(24,740)	–	–	92,159	302,242
Loss for the financial year	–	–	–	–	–	(94,217)	(94,217)
At 31 December 2018	22	234,801	(24,740)	–	–	(2,058)	208,025

Consolidated Statement of Cash Flows

for the year ended 31 December	Note	2018 \$000	2017 \$000
Net cash flows from operating activities	25	1,447,842	54,027
Cash flows from investing activities			
Expenditure on exploration and evaluation assets		(28,801)	(8,818)
Expenditure on property, plant and equipment		(321,362)	(26,715)
Expenditure on business combinations and acquisitions		(240,360)	(2,062,302)
Net cash flow from investing activities		(590,523)	(2,097,835)
Cash flows from financing activities			
Repayment of borrowings	21	(735,000)	–
Proceeds from new financing arrangement	21	20,400	–
Proceeds from share issue		–	67,313
Proceeds from new borrowings	21	–	2,272,026
Interest received		8,622	260
Interest paid and bank charges		(132,825)	(29)
Net cash flow from financing activities		(838,803)	2,339,570
Net increase in cash and cash equivalents		18,516	295,762
Effect of exchange rates on cash and cash equivalents		(1,746)	(303)
Cash and cash equivalents at 1 January		299,541	4,082
Cash and cash equivalents as at 31 December	17	316,311	299,541

Company

Statement of Cash Flows

for the year ended 31 December	Note	2018 \$000	2017 \$000
Net cash flows from operating activities	25	19,524	(6,034)
Cash flows from investing activities			
Expenditure on acquisition of subsidiary		–	(193,709)
Net advances to subsidiary undertakings		–	(566,252)
Net cash flow from investing activities		–	(759,961)
Cash flows from financing activities			
Proceeds of share issue		–	67,313
Proceeds of loan notes issue	21	–	694,780
Interest received		117	129
Interest paid and bank charges		–	(4)
Net cash flow from financing activities		117	762,218
Net increase/(decrease) in cash and cash equivalents		19,641	(3,777)
Effect of exchange rates on cash and cash equivalents		(1)	114
Cash and cash equivalents at 1 January		3	3,666
Cash and cash equivalents as at 31 December	17	19,643	3



**Notes to the
Financial
Statements**

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(1) Corporate Information

The consolidated financial statements of Chrysaor Holdings Limited for the year ended 31 December 2018 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 25 April 2019. 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 Ugland House, South Church Street, George Town, Grand Cayman.

The Group's and Company'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 Company and 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 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 and assets classified as held for sale which are carried at fair value less cost to sell.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018. 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 2018. 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% 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.

Joint Arrangements

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

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

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

Foreign Currency Translation

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

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

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

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

Business Combinations

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

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

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

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

Goodwill

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

Goodwill, as disclosed in note 10, is reviewed for impairment at least annually by assessing the recoverable amount of the cash generating units to which the goodwill relates. Where the carrying amount of the cash generating unit and related goodwill is higher than the recoverable amount of the cash generating unit, an impairment loss is recognised.

Intangible Assets - Exploration and Evaluation assets

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

(a) Pre-License Costs

Pre-licensing costs are expensed in the period in which they are incurred.

(b) Licensing 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

Notes to the financial statements

for the year ended 31 December 2018 (continued)

asset. The capitalised value of a finance lease is also included within property, plant and equipment.

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

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

Other Property, Plant and Equipment

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

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

Impairment of Non-Current Assets (Excluding Goodwill)

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

Financial Instruments

a. Financial Assets

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

Loans and Receivables

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

Cash and Cash Equivalents

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

Impairment of Financial Assets

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). 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. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

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

As noted above, these financial liabilities are recognised initially at fair value plus directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition

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

c. Derivative Financial Instruments

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

Cash Flow Hedges

The effective portion of gains and losses arising from the re-measurement of derivative financial instruments designated as cash flow hedges are deferred within other comprehensive income and subsequently transferred to 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.

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

This reserve (intrinsic & extrinsic) represents gains and losses on derivatives classified as effective cash flow hedges.

Currency Translation Reserve

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

Inventories

Hydrocarbon inventories are stated at net realisable value with movements recognised in the income statement (see Over/underlift section on page 60). All other inventories are stated at the lower of cost and net realisable value. The cost of materials is the purchase cost, determined on first-in, first-out basis.

Leasing Commitments

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

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

The adoption of IFRS 16 Leases, which the Group will adopt for the year commencing 1 January 2019, will impact both the measurement and disclosures of leases over a low-value threshold and with terms longer than one year. For further details see "IFRS 16 Leases" on page 60.

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.

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.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

ii. Deferred Tax

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

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

Revenue from Contracts with Customers

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

Over/underlift

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

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 2018, including IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers".

IFRS 9 Financial Instruments

The classification and measurement of financial assets has changed with the implementation of IFRS 9. However, this has not materially changed the measurement of financial assets of the Group. The IFRS 9 impairment model requiring the recognition of 'expected credit losses', in contrast to the requirement to recognise 'incurred credit losses' under IAS 39, has not had a material impact on the Group's financial statements. Trade receivables are generally settled on a short time frame and the Group's other financial assets are due from counterparties without material credit risk concerns at the time of transition.

IFRS 15 Revenue from Contracts with Customers

The implementation of IFRS 15 has not impacted the presentation of the Group's sales revenue. Disclosure of disaggregated revenue information consistent with the requirement included in IFRS 15 has not had an impact on the information presented in note 4. The Group's accounting policy under IFRS 15 is detailed within "Revenue from Contracts with Customers" and does not, therefore, represent a substantive change from the Group's previous accounting policy for recognising revenue from sales to customers.

Accounting Standards Issued but not yet Effective

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

IFRS 16 Leases

IFRS 16 Leases, replaces the existing standard on accounting for leases, IAS 17, and the related interpretations. The Group will apply the standard from the effective date of 1 January 2019. The Group will transition to IFRS 16 in accordance with the modified retrospective approach and therefore, the prior year figures will not be adjusted.

As part of the project conducted on initial application, the Group has used the practical expedient within the standard not to reassess whether a contract contains a lease and also not to recognise right of use (ROU) assets and liabilities for leases where the total lease term is less than or equal to 12 months, or for leases of low value.

The main effect on the Group is that IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases where the practical expedients above are not applicable.

It is estimated that on initial application the Group will recognise ROU assets and lease liabilities for its office leases amounting to \$19.5 million, which is the present value of the remaining lease payments, discounted using an incremental borrowing rate on the implementation date and assuming the leases run to full term with no break clauses exercised.

In contrast to the presentation to date of operating lease expenses, under IFRS 16, the ROU assets will be depreciated on a straight-line basis over the length of the lease and interest will be charged as the discount rate is unwound.

It is expected that in 2019, Chrysaor will recognise ROU asset depreciation of \$2.3 million and lease interest of \$0.1 million in its consolidated income statement in relation to its current office leases. In comparison, the operating lease expense for 2019 under IAS 17 would have been \$2.7 million.

The cash flow statement will also be impacted as the change in the presentation of operating lease expenses will result in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.

Significant Accounting Judgements

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

Exploration and Evaluation Expenditure

As at 31 December 2018, the Group held a balance of \$52.5 million (2017: \$35.5 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.

Investments and long-term amounts due from subsidiary undertakings

The Company is required to assess the carrying values of each of the amounts due from subsidiary undertakings, considering the requirements established by IFRS 9 Financial Instruments. The IFRS 9 impairment model requires the recognition of 'expected credit losses', in contrast to the requirement to recognise 'incurred credit losses' under IAS 39. Where conditions exist for impairment on amounts due from subsidiary undertakings, expected credit losses assume that repayment of a loan is demanded at the reporting date. If the subsidiary has sufficient liquid assets, or access to sufficient liquid assets from its parent undertaking, to repay the loan, if demanded at the reporting date, the expected credit loss is likely to be immaterial. However, if the subsidiary cannot demonstrate the ability to repay the loan, if demanded at the reporting date, the Company calculates an expected credit loss. Despite this requirement, the Company does not intend to demand repayment of any amounts due from subsidiary undertakings in the near future.

Key Sources of Estimation Uncertainty

Oil and Gas Reserves

Significant estimates and determinations are required when assessing the economically recoverable reserves of an oil and gas field. Such estimates are impacted by a number of factors, including commodity prices, future capital expenditure and the available reservoir data. The estimation of oil and gas reserves affects the calculation of depreciation, the recoverable amount of assets for the purpose of impairment testing and the anticipated date of decommissioning.

Recoverability of Oil and Gas Assets

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

The Group's estimate of recoverable value of assets is sensitive to commodity prices, foreign exchange and discount rate. A reduction or increase in the long-term price and foreign exchange rate assumptions of 10% are considered to be reasonably possible for the purposes of sensitivity analysis. Management estimates indicate that a decrease in commodity prices or a 10% decrease in the USD/GBP foreign exchange rate would not give rise to a material impairment charge.

Further, management estimates that a 2% change in the pre-tax discount rate to be a reasonable possibility based on an analysis of a peer group of companies' impairment discount rates and that a 2% increase in the pre-tax discount rate would not give rise to a material impairment charge.

Decommissioning Costs

Decommissioning costs will be incurred by the Group at the end of the operating life of most of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including the expected timing, extent and amount of expenditure. On the basis that all other assumptions in the calculation remain the same a 10% increase in the cost estimates used to assess the final decommissioning obligation would result in an increase to the decommissioning provision of approximately \$210 million. This change would be principally offset by a change to the value of the associated asset.

Recovery of Deferred Tax Assets

Deferred tax assets, including those arising from unutilised tax losses, require management to estimate and assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable income are based on forecasted cash flows from operations and judgement about the application of existing tax laws. Judgement is required to determine whether deferred tax assets are recognised in the balance sheet. Following completion of the transaction with Shell in 2017, the foreseeable future taxable profits of the Group increased sufficiently to allow previously unrecognised deferred tax associated with pre-acquisition losses to be recognised in full.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(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.

	2018	2017
	\$000	\$000
Income statement		
UK	810,159	45,104
Norway	(7,949)	–
Group operating profit	802,210	45,104
Finance income	46,484	260
Finance expenses	(270,293)	(44,893)
Profit before taxation	578,401	471
Income tax (expense)/credit	(209,501)	258,527
Profit for the financial year	368,900	258,998
Balance sheet (segment assets)		
UK	5,415,424	5,462,170
Norway	8,609	–
Total assets	5,424,033	5,462,170
Balance sheet (segment liabilities)		
UK	(4,477,140)	(5,142,321)
Norway	(10,651)	–
Total liabilities	(4,487,791)	(5,142,321)
Capital expenditure		
UK	409,104	66,665
Norway	762	–
Total capital expenditure	409,866	66,665

	2018	2017
	\$000	\$000
Depreciation, depletion & amortisation		
UK	629,134	100,847
Norway	20	–
Total depreciation, depletion & amortisation	629,154	100,847
Exploration & evaluation expenses		
UK	1,994	11,323
Norway	5,923	–
Total exploration & evaluation expenses	7,917	11,323

All exploration costs written-off of \$10.7 million (2017: \$7.3 million) relate to the UK business unit.

(4) Revenue

Group	2018	2017
	\$000	\$000
Crude oil sales	1,278,637	203,551
Gas sales	516,790	86,016
Condensate sales	154,823	23,933
Hydrocarbon revenue	1,950,250	313,500
Tariff and other revenue	15,352	–
Total revenue	1,965,602	313,500

Revenue of \$2,017.4 million (2017: \$313.5 million) were from contracts with customers. This was offset by realised hedging losses on crude sales in the year of \$51.8 million (2017: \$nil). Approximately 96% (2017: 95%) of the revenues were attributable to energy trading companies of the Shell Group.

The revenues for 2017 reflect the two months of oil and gas production following the acquisition described in note 14.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(5) Operating Profit

This is stated after charging/(crediting):

Group	2018 \$000	2017 \$000
Movement in over/underlift balances and hydrocarbon inventories	50,772	4,799
Production, insurance and transportation costs	494,908	85,771
Depreciation of property, plant and equipment	626,357	100,241
Amortisation of intangible assets	2,797	606
Credit due to reduction in decommissioning provision	(44,485)	–
Employee costs	70,732	22,359
Exploration and evaluation expenditure	7,917	11,323
Exploration costs written-off (note 11)	10,731	7,276
Re-measurement of royalty valuation	(1,327)	9,171
Re-measurement of commodity price contingent consideration	734	21,033
Re-measurement of exploration contingent consideration	(217)	–
Auditors' remuneration – audit of the financial statements	466	557
– other fees to auditors - taxation services	533	340
– other fees to auditors - transaction services	891	1,684
Operating lease payments	949	135

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

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

Company	2018 \$000	2017 \$000
Depreciation of property, plant and equipment	–	73
Employee costs	–	5,457
Auditors' remuneration – audit of the financial statements	21	27
Operating lease payments	–	100

(6) Staff Costs

	Group 2018 \$000	Group 2017 \$000	Company 2018 \$000	Company 2017 \$000
Wages and salaries	54,262	18,837	–	4,765
Social security costs	6,910	1,711	–	613
Pension costs	6,836	1,276	–	66
Other staff costs including benefits	2,724	535	–	13
	70,732	22,359	–	5,457

	Group 2018 No.	Group 2017 No.	Company 2018 No.	Company 2017 No.
Offshore based	156	26	–	–
Office and administration	213	62	–	21
	369	88	–	21

All employment contracts are held by a subsidiary of the Group.

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

Following completion of the acquisition of North Sea assets from Shell on 1 November 2017, the number of persons employed by the Group increased significantly.

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

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(7) Finance Income and Finance Expenses

Group	2018	2017
Finance income	\$000	\$000
Bank interest receivable	8,622	260
Foreign exchange gains	37,862	–
	46,484	260
Finance expenses		
Interest payable on Reserves Based Loan and junior facilities	99,914	15,906
Interest payable on loan notes	83,911	15,199
Other interest	3,924	–
Foreign exchange losses	–	915
Bank and financing fees	37,187	5,264
Unwinding of discount on contingent consideration	925	463
Unwinding of discount on decommissioning and other provisions	44,432	7,146
	270,293	44,893

Bank and financing fees include an amount of \$17.3 million (2017: \$2.8 million) relating to the amortisation of transaction costs capitalised against the Group's long-term borrowings (note 21).

Other interest of \$3.9 million (2017: \$nil) represents interest chargeable under a financing arrangement (note 21).

Company	2018	2017
Finance income	\$000	\$000
Bank interest receivable	117	129
Interest receivable on loans with subsidiaries	–	23,916
Foreign exchange gains	–	5,206
	117	29,251
Finance expenses		
Interest payable on loan notes	83,911	15,199
Foreign exchange losses	1,332	–
Bank and financing fees	–	4
	85,243	15,203

(8) Directors' Remuneration

	2018	2017
	\$000	\$000
Directors' remuneration	2,215	901
Payments made in lieu of pension contributions	179	53
Pension costs	25	12
	2,419	966

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

	2018	2017
	\$000	\$000
Directors' remuneration	1,286	495
Payments made in lieu of pension contributions	105	33
Pension costs	12	6
	1,403	534

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.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(9) Income Tax

(a) Group

The major components of income tax expense/(credit) for the years ended 31 December 2018 and 2017 are:

	2018	2017
	\$000	\$000
Current income tax (credit)/expense		
UK corporation tax	1,977	6,033
Overseas tax	(5,534)	–
Adjustments in respect of prior years	(1,008)	–
Total current income tax (credit)/expense	(4,565)	6,033
Deferred tax expense/(credit)		
UK corporation tax	229,327	(264,560)
Overseas tax	(312)	–
Adjustments in respect of prior years	(14,949)	–
Total deferred tax expense/(credit)	214,066	(264,560)
Tax expense/(credit) in the income statement	209,501	(258,527)
The tax expense/(credit) in the income statement is disclosed as follows		
Income tax expense/(credit) on continuing operations	209,501	(258,527)
	209,501	(258,527)

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

A reconciliation between total tax charge/(credit) and the accounting profit multiplied by the standard rate of corporation tax and supplementary charge applying to UK oil and gas production operations for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
	\$000	\$000
Profit before taxation	578,401	471
Group profit before taxation at 39.95% weighted average (2017: 40%)	231,128	188
Effects of:		
Expenses not deductible for tax purposes	17,282	16,989
Interest not deductible for supplementary charge	9,411	–
Adjustment in respect of prior years	(15,956)	–
Ring fence expenditure supplement	(24,877)	(44,119)
Movement in unrecognised deferred tax assets	2,877	(234,853)
Impact of Group relief surrendered at different tax rates	–	2,909
Changes in tax rates	–	(5)
Tax rate differences	–	(610)
Impact of losses relieved at different rates	17,714	–
Investment allowance	(28,078)	(395)
Currency translation adjustment	–	1,305
Other	–	64
Total tax expense/(credit) reported in the consolidated income statement	209,501	(258,527)

Notes to the financial statements

for the year ended 31 December 2018 (continued)

Deferred Tax

	Accelerated Capital Allowances \$000	Abandonment \$000	Losses \$000	Fair value on derivatives \$000	Other \$000	Total \$000
As at 1 January 2017	(9)	–	21,678	–	–	21,669
Deferred tax (expense)/credit	(314,230)	5,015	573,775	–	–	264,560
Comprehensive income	–	–	–	29,164	–	29,164
Acquisition accounting	(1,382,599)	692,600	–	–	–	(689,999)
At 31 December 2017	(1,696,838)	697,615	595,453	29,164	–	(374,606)
Deferred tax (expense)/credit	212,560	(121,527)	(337,842)	–	32,743	(214,066)
Comprehensive (loss)	–	–	–	(179,584)	(3,468)	(183,052)
Acquisition accounting	(8,198)	11,176	–	–	–	2,978
At 31 December 2018	(1,492,476)	587,264	257,611	(150,420)	29,275	(768,746)

Deferred tax assets are recognised to the extent that the future benefit from the underlying tax losses carried forward is probable. Relevant tax law is considered as to the availability of the tax losses to offset future income. To determine the future taxable income

from which the losses may be deducted, reference was made to the profit forecasts for the Group as at 31 December 2018. These profit forecasts showed sufficient future taxable income to recognise the deferred tax asset.

(b) Company

The major components of the Company's income tax credit for the years ended 31 December 2018 and 2017 are:

	2018	2017
	\$000	\$000
Current income tax (credit)		
UK corporation tax	(353)	–
Adjustments in respect of prior years	(395)	–
Total current income tax (credit)	(748)	–
Deferred tax (credit)/expense		
UK corporation tax	–	(3)
Adjustments in respect of prior years	3	–
Total deferred tax (expense)/credit	3	(3)
Tax credit in the income statement	(745)	(3)

The tax credit in the income statement is disclosed as follows

Income tax credit on continuing operations	(745)	(3)
	(745)	(3)

A reconciliation between total tax credit and the accounting (loss)/profit multiplied by the standard rate of corporation tax for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
	\$000	\$000
(Loss)/profit before taxation	(94,962)	8,828
Tax calculated at UK standard rate of corporation tax of 19% (2017: 19.25%)	(18,042)	1,699
Effects of:		
Expenses not deductible for tax purposes	15,943	1,969
Movement in unrecognised deferred tax assets	1,739	–
Adjustments in respect of prior years	(392)	–
Group relief claimed	–	(3,682)
Other	7	11
Total tax credit reported in the income statement	(745)	(3)

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

	2018	2017
	\$000	\$000
Deferred tax asset		
Accelerated capital allowances	–	3
	–	3

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(10) Goodwill

Group Cost	2018 \$000	2017 \$000
At 1 January	500,080	–
Additions	2,943	498,978
Finalisation of 2017 business combination (note 14)	(5,463)	–
Currency translation adjustment	(4,476)	1,102
At 31 December 2018	493,084	500,080

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 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. During the year, under the two Sale and Purchase Agreements (SPA) pertaining to the acquisition that completed in 2017, Chrysaor agreed the full and final settlement with Shell. See note 14 for further details.

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 Company tested for impairment in accordance with accounting policy and no impairment was identified.

Determining Recoverable Amount

The recoverable amount of the CGU has been determined on a value-in-use basis using discounted future cash flows based on 2P reserves profiles. Discounted cash flow models comprising life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy) have been used to determine the recoverable amounts. 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.

Commodity prices are based on forecast forward prices for 2019 and 2020, and thereafter on management's long-term price assumptions. Management's long-term assumptions are benchmarked against a range of external forward price curves on a regular basis. Individual field price differentials are then applied.

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, subsequently grossed up to a pre-tax rate. The pre-tax discount rate applied to the Group's pre-tax cash flow projections was 10.0%.

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

(11) Other Intangible Assets

Group Cost	Oil and gas assets \$000	Capacity rights \$000	Total \$000
At 1 January 2017	7,280	–	7,280
Additions	8,818	–	8,818
Additions from business combinations and joint arrangements	25,935	10,029	35,964
Exploration costs written-off	(7,276)	–	(7,276)
Currency translation adjustment	776	419	1,195
At 31 December 2017	35,533	10,448	45,981
Additions	28,196	–	28,196
Unsuccessful exploration written-off	(10,731)	–	(10,731)
Currency translation adjustment	(455)	(814)	(1,269)
At 31 December 2018	52,543	9,634	62,177
Accumulated amortisation			
At 1 January 2017	–	–	–
Charge for the year	–	606	606
At 31 December 2017	–	606	606
Charge for the year	–	2,797	2,797
Currency translation adjustment	–	(155)	(155)
At 31 December 2018	–	3,248	3,248
Net book value			
At 31 December 2018	52,543	6,386	58,929
At 31 December 2017	35,533	9,842	45,375

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

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

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(12) Property, Plant and Equipment

Group Cost	Oil and gas assets \$000	Fixtures and fittings and office equipment \$000	Total \$000
At 1 January 2017	–	609	609
Additions	35,494	22,353	57,847
Additions from business combinations and joint arrangements	4,280,359	–	4,280,359
Currency translation adjustment	10,783	675	11,458
At 31 December 2017	4,326,636	23,637	4,350,273
Additions	370,124	11,546	381,670
Additions from business combinations and joint arrangements	20,495	–	20,495
Reduction in decommissioning asset	(299,543)	–	(299,543)
Currency translation adjustment	19,385	(1,654)	17,731
At 31 December 2018	4,437,097	33,529	4,470,626
Accumulated depreciation			
At 1 January 2017	–	539	539
Charge for the year	98,971	1,270	100,241
Currency translation adjustment	(12)	66	54
At 31 December 2017	98,959	1,875	100,834
Charge for the year	617,024	9,333	626,357
Currency translation adjustment	59	(449)	(390)
At 31 December 2018	716,042	10,759	726,801
Net book value			
At 31 December 2018	3,721,055	22,770	3,743,825
At 31 December 2017	4,227,677	21,762	4,249,439

A reduction in the decommissioning assets of \$299.5 million (2017: \$nil) was made during the year as a result of an update to the decommissioning estimates (note 20). Further information on additions from business combinations and joint arrangements can be found in note 14.

Included within property, plant and equipment additions above of \$381.7 million are associated cash flows of \$321.4 million and non-cash flow items of \$60.3 million, represented by decommissioning asset revisions of \$18.9 million, and \$41.4 million of non-cash working capital movements.

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

At 31 December 2017, the Company's fixtures and fittings and office equipment were fully written-down and there were no further movements within 2018.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(13) Investments and Amounts Due from Subsidiary Undertakings

Company	Equity \$000	Loans \$000	Total \$000
At 1 January 2018	–	1,094,030	1,094,030
Currency translation adjustment	–	(838)	(838)
At 31 December 2018	–	1,093,192	1,093,192

The Company holds net investments in its subsidiary undertakings in the form of loan arrangements. At 31 December 2018, the Company had loaned \$885.2 million (2017: \$885.2 million) to Chrysaor Limited, \$193.7 million in Chrysaor E&P Limited (2017: \$193.7 million) and \$14.3 million (2017: \$15.1 million) to Chrysaor CNS Limited. All loans are non-interest bearing and the Company has confirmed that it has no current intention to call on the loans until at least 12 months from the date of the approval of these financial statements.

At 31 December 2018, the subsidiary undertakings of the Company which were all wholly owned were:

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

All the subsidiaries are registered in England and Wales, with the exception of Chrysaor Norge AS. 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.

(14) Business Combinations and Acquisition of Interests in Joint Arrangements

Business combinations during the year ended 31 December 2018

On 1 June 2018, the Group acquired the remaining equity in Armada, Maria and Seymour fields from Spirit Energy and so now holds 100% in the Armada hub. The fair values of the net identifiable assets acquired from the transaction are as follows:

	Total \$000
Property, plant and equipment – oil and gas assets	20,495
Inventories	85
Trade and other receivables	6,936
Trade and other payables	(5,136)
Deferred tax	2,978
Provision for decommissioning	(27,941)
Fair value of identifiable net assets acquired	(2,583)
Cash Consideration	360
Goodwill recognised	2,943

From the date of acquisition, the business contributed \$13.8 million of revenue and \$1.3 million of a loss to the profit before taxation from continuing operations of the Group. Had the acquisition been affected at 1 January 2018, the business would have contributed revenue of \$22.3 million in the year to 31 December 2018, and \$4.3 million of a loss towards profit before taxation.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

Business Combinations During the Year Ended 31 December 2017

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

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

	Joint operations \$000	BGI CNS Limited \$000	Total \$000
Exploration, evaluation and other intangible assets	25,935	10,029	35,964
Property, plant and equipment – oil and gas assets	3,688,543	591,816	4,280,359
Inventories	100,951	22,996	123,947
Trade and other receivables	36,685	30,930	67,615
Trade and other payables	(118,759)	(46,768)	(165,527)
Deferred tax	(614,031)	(76,272)	(690,303)
Provision for decommissioning	(1,313,400)	(418,100)	(1,731,500)
Fair value of identifiable net assets acquired	1,805,924	114,631	1,920,555
Cash consideration	1,977,881	197,230	2,175,111
Deferred consideration	213,612	–	213,612
Contingent consideration	25,347	–	25,347
Total consideration transferred	2,216,840	197,230	2,414,070
Goodwill recognised	410,916	82,599	493,515
Finalisation of 2017 acquisition			
As reported at 31 December 2017			
Fair value of identifiable net assets acquired	1,786,394	115,889	1,902,283
Total consideration transferred	2,207,552	193,709	2,401,261
Goodwill recognised	421,158	77,820	498,978
Movement in the year			
Fair value of identifiable net assets acquired	19,530	(1,258)	18,272
Total consideration transferred	9,288	3,521	12,809
Goodwill recognised	(10,242)	4,779	(5,463)

Acquisition related costs of \$5.5 million were incurred during 2017 and recognised as an expense within operating costs.

The cash consideration included a \$100 million advance by a private equity investor of the Company on behalf of the Group, the amount was subsequently settled with the shareholder by the issuance of loan notes. A final payment of \$12.8 million was made and the value of trade and other payables was reduced by \$18.3 million following full and final settlement with Shell in August 2018. The numbers in the table above have been updated for these changes and goodwill

reduced by \$5.5 million. The deferred consideration represented \$215 million payable to the seller no later than six months following the acquisition date and was included in the consideration transferred at a discounted value. The \$215 million was settled in April 2018.

The transaction included provisions for additional payments to the sellers of up to \$600 million and refundable from the sellers of up to \$100 million, dependent on future commodity prices over the four-year period ended 31 December 2021. These contingent payments and receipts represent derivative instruments.

The contingent consideration transferred included an amount of \$17.6 million, representing an estimate of the fair value of these derivative instruments at the acquisition date. The contingent consideration also included an amount of \$7.7 million, representing the estimated fair value of additional payments to the sellers which are dependent upon future exploration results. Contingent consideration balances are assessed at each reporting date with any change in the valuation reported through the income statement.

Goodwill of \$493.5 million 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 expected to be deductible for corporation tax.

The consolidated results of the Group for the year ended 31 December 2017 included revenue of \$313.5 million and an estimated operating profit of \$50 million attributable to the acquired businesses. Prior to the acquisition, the Group had no revenues. The acquisition completed close to the reporting date and the historic data available to the Group as at the date of this report means it has not been practicable to determine a reliable estimate of what the results of the Group would have been had the acquisition occurred at the beginning of the accounting period.

(15) Inventories

Group	2018 \$000	2017 \$000
Hydrocarbons	17,972	18,295
Consumables and subsea supplies	71,819	73,268
	89,791	91,563

Hydrocarbon inventories are measured at net realisable value. Inventories of consumables and subsea supplies include a provision of \$2.2 million (2017: \$0.2 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 2018 amounted to \$3.5 million (2017: \$1.7 million). These expenses are included within production costs.

(16) Trade and Other Receivables

Group	2018 \$000	2017 \$000
Trade debtors	66,548	159,637
Underlift position	18,646	60,735
Other debtors	29,625	23,190
Prepayments and accrued income	112,086	14,937
Corporation tax receivable	4,625	–
	231,530	258,499

Trade debtors are non-interest bearing and are generally on 20 to 30 days' terms. As at 31 December 2018, there were no trade receivables that were past due. (2017: \$nil).

The carrying values 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 2018 or 31 December 2017.

Company	2018 \$000	2017 \$000
Amounts owed by Group undertakings	18,021	45,594
Other debtors	91	484
Prepayments and accrued income	548	581
	18,660	46,659

Amounts owed by Group undertakings are unsecured, non-interest bearing and repayable on demand.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(17) Cash and Cash Equivalents

Group	2018 \$000	2017 \$000
Cash at bank and in hand	316,311	299,541

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

Company	2018 \$000	2017 \$000
Cash at bank and in hand	19,643	3

(18) Commitments

Operating Lease Commitments

The Group has financial commitments in respect of operating leases for office premises in London, Aberdeen and Oslo (2017: London and Aberdeen). The future minimum rentals payable under the lease are as follows:

Group	2018 \$000	2017 \$000
Not later than one year	1,969	474
After one year but not more than five years	12,280	9,797
	14,249	10,271

Company	2018 \$000	2017 \$000
Not later than one year	–	474
After one year but not more than five years	–	1,746
	–	2,220

Capital Commitments

As at 31 December 2018, the Group had commitments for future capital expenditure amounting to \$445.2 million (2017: \$344.9 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.

As at 31 December 2018, there were no commitments for future capital expenditure in the Company (2017: \$nil).

(19) Trade and Other Payables

Group	2018 \$000	2017 \$000
Trade payables	22,387	27,810
Overlift position	48,212	47,180
Deferred consideration	–	214,075
Other payables	2,191	7,792
Accruals and deferred income	223,644	181,635
Corporation tax payable	–	1,028
	296,434	479,520

Deferred consideration of \$215.0 million was paid to Shell in April 2018 as part of the acquisition of UK North Sea assets described in note 14.

Company	2018 \$000	2017 \$000
Trade payables	–	55
Amount owed to Group undertakings	879	306
Accruals	588	–
	1,467	361

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(20) Provisions

	Decommissioning provision \$000	Other \$000	Total \$000
At 1 January 2018	1,750,952	7,760	1,758,712
Additions from business combinations and joint arrangements (note 14)	27,941	–	27,941
Additions	18,941	–	18,941
Changes in estimates - decrease to decommissioning asset	(299,543)	–	(299,543)
Changes in estimates - credit to income statement	(44,485)	–	(44,485)
Remeasurements	–	(217)	(217)
Amounts used	(21,502)	–	(21,502)
Unwinding of discount	44,285	147	44,432
Currency translation adjustment	(8,545)	–	(8,545)
At 31 December 2018	1,468,044	7,690	1,475,734

The Group provides for the estimated future decommissioning costs on its oil and gas assets at the balance sheet date. The payment dates of expected decommissioning costs are uncertain and are based on economic assumptions of the fields concerned. The Group currently expects to incur decommissioning costs over the next 25 years. Approximately half of the costs currently provided for are anticipated to be incurred between 10 to 20 years. Decommissioning provisions are discounted at a risk-free rate of 2.8% and the unwinding of the discount is presented within finance costs.

These provisions have been created based on internal and third-party estimates. Assumptions based on the current economic environment have been made, which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to 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 contingent consideration arrangements with the previous owners of the UK North Sea asset package acquired by the Group in November 2017. The consideration is payable subject to future exploration success on certain prospects before 2025. The provision for contingent consideration represents the best estimate of amounts payable under the purchase agreement as at the balance sheet date and will be reviewed at least annually, considering actual drilling results and planned activities. Changes to the contingent consideration provision will be presented in the income statement on a prospective basis.

(21) Borrowings and Facilities

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

	Group 2018 \$000	Group 2017 \$000	Company 2018 \$000	Company 2017 \$000
Reserves Based Loan facility	464,277	1,183,915	–	–
Junior facility	394,285	392,326	–	–
10% Unsecured C loan notes 2027	31,886	28,985	31,886	28,985
10% Unsecured D loan notes 2027	256,469	233,124	256,469	233,124
10% Unsecured E loan notes 2029	633,648	575,983	633,648	575,983
Other loans	24,324	–	–	–
	1,804,889	2,414,333	922,003	838,092
Classified within				
Non-current liabilities	1,709,317	2,414,333	922,003	838,092
Current liabilities	95,572	–	–	–
	1,804,889	2,414,333	922,003	838,092

Interest of \$0.2 million (2017: \$15.9 million) on the Reserve Based Loan (RBL) and junior facilities had accrued by the balance sheet date and have been classified within accruals and deferred income.

In 2017, the Group entered into a number of borrowing arrangements and facilities to fund the acquisition of the UK North Sea assets discussed in note 14. The primary arrangement was a RBL facility of \$1.5 billion, being a six-year facility with a consortium consisting of 17 banks and secured by a pledge over the Group's oil and gas interests in the North Sea. During 2018 the decision was taken to exercise the option of the \$0.5 billion accordion, increasing the facility to \$2.0 billion. Subject to the maximum size of the facility which reduces every six months on a straight-line basis from 31 December 2018 to 31 December 2022, the amount available under the facility is determined semi-annually based on a valuation of the Group's borrowing base assets under certain forward-looking assumptions. The facility carries interest at USD LIBOR plus a margin of 4%, rising to a margin of 4.5% after 4 years. Certain fees are also payable including fees on available commitments at 40% of the applicable margin and a 2% commission on letters of credit issued.

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

Incremental transaction costs of \$53.6 million and \$8 million were incorporated into the initial carrying amount of the RBL and junior facilities respectively, when those facilities were completed in 2017; these amounts are being amortised over the term of the relevant arrangement. During the year \$17.3 million (2017: \$2.8 million) of

transaction costs 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 \$500 million and \$400 million respectively (2017: \$1,235 million and \$400 million). As at 31 December 2018, the junior facility remained fully drawn and \$1.1 billion 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% per annum which, at the election of the Company, is capitalised and added to the principal amount each 31 December. The C loan notes and D loan notes rank junior to any senior bank debt and the E loan notes rank pari passu with the ordinary shares of the Company. None of the loan notes carry voting rights.

The Group has Letters of Credit facilities of \$168 million (2017: \$175 million) held in respect of future field abandonment liabilities.

Other loans represent a commercial financing arrangement with BHGE, covering a three-year work programme for drilling, completion and subsea tie-in of development wells on Chrysaor's operated assets. As part of the deal, BHGE contributes 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.

Notes to the financial statements for the year ended 31 December 2018 (continued)

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

	Group \$000	Company \$000
Total borrowings as at 1 January 2017	–	–
Gross cash inflow from RBL & junior facility	1,635,000	–
Transaction costs paid and capitalised	(57,754)	–
Cash inflow from issue of loan notes	694,780	694,780
Net cash inflow from borrowings	2,272,026	694,780
Loan notes issued for non-cash consideration	128,113	128,113
Loan notes interest capitalised	15,199	15,199
Accrued transaction costs capitalised	(1,500)	–
Amortisation of transaction costs	2,820	–
Currency translation adjustments	(2,325)	–
Total borrowings as at 31 December 2017	2,414,333	838,092
Repayment of senior debt	(735,000)	–
Proceeds from financing arrangement	20,400	–
Loan notes interest capitalised	83,911	83,911
Other loan interest capitalised	3,924	–
Amortisation of transaction costs	17,321	–
Total borrowings as at 31 December 2018	1,804,889	922,003

(22) Other Financial Assets and Liabilities

Group	2018 Assets \$000	2018 Liabilities \$000	2017 Assets \$000	2017 Liabilities \$000
Measured at fair value through profit and loss				
Royalty consideration	3,000	–	3,000	–
Commodity derivatives – contingent consideration	–	(35,078)	–	(18,320)
	3,000	(35,078)	3,000	(18,320)
Measured at fair value through other comprehensive income				
Commodity derivatives – cash flow hedges	296,049	(31,424)	–	(24,090)
Total current	299,049	(66,502)	3,000	(42,410)
Measured at fair value through profit and loss				
Royalty consideration	9,700	–	11,373	–
Commodity derivatives – contingent consideration	–	(4,276)	–	(20,300)
	9,700	(4,276)	11,373	(20,300)
Measured at fair value through other comprehensive income				
Commodity derivatives – cash flow hedges	181,814	(71,210)	3,300	(52,440)
Total non-current	191,514	(75,486)	14,673	(72,740)
Total current and non-current	490,563	(141,988)	17,673	(115,150)

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.

Group As at 31 December 2018	Financial assets		Financial liabilities	
	Level 2 \$000	Level 3 \$000	Level 2 \$000	Level 3 \$000
Royalty valuation	–	12,700	–	–
Commodity derivatives – cash flow hedges	477,863	–	(102,634)	–
Commodity derivatives – contingent consideration	–	–	–	(39,354)
	477,863	12,700	(102,634)	(39,354)

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

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:

Group	Financial assets		Financial liabilities	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Fair value as at 1 January	14,373	26,542	(38,620)	–
Additions	–	–	–	(17,587)
Settlements	(3,000)	(3,000)	–	–
Gains and losses recognised in the income statement	1,327	(9,171)	(734)	(21,033)
Currency translation adjustments	–	2	–	–
Fair value as at 31 December	12,700	14,373	(39,354)	(38,620)

Part of the consideration received on the sale of the Group's interest in a pre-production development in 2015 was a royalty interest, which is recognised on the balance sheet as a financial asset. At 31 December 2018, the Group valued the outstanding consideration receivable at \$12.7 million (2017: \$14.4 million) of which \$3.0 (2017: \$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.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

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

Group	2018	2017
Income/(expense) included in the income statement	\$000	\$000
Ineffectiveness on cash flow hedges	–	(332)
Re-measurement of royalty valuation	1,327	(9,171)
Re-measurement of commodity price contingent consideration	(734)	(21,033)
	593	(30,536)

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.

Group	2018	2018	2017	2017
	Book value	Fair value	Book value	Fair value
	\$000	\$000	\$000	\$000
Long-term borrowings – loan notes	(922,003)	(934,687)	(838,092)	(870,925)

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

Cash Flow Hedge Accounting

The Group uses a combination of fixed price physical sales contracts and cash-settled fixed price commodity swaps, and options to manage the price risk associated with its underlying oil and gas revenues. As at 31 December 2018, 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 Group's financial commodity derivatives. Volumes hedged through fixed price contracts with customers for physical delivery are excluded.

Group	2019	2020	2021
Oil volume hedged (thousand bbls)	16,060	12,041	5,598
Weighted average hedged price (\$/bbl)	70.74	63.81	65.47
Gas volume hedged (million therms)	647	516	310
Weighted average hedged price (p/therm)	45p	45p	47p

As at 31 December 2018, the fair value of net financial commodity derivatives designated as cash flow hedges was \$375.2 million (2017: \$(73.2) million) and net unrealised pre-tax gains of \$374.9 million (2017: losses \$72.9 million) was deferred in other comprehensive income in respect of the effective portion of the hedge relationships.

Amounts deferred in comprehensive income will be released to the income statement as the underlying hedged transactions occur. As at 31 December 2018, net deferred pre-tax gains of \$264.6 million (2017: losses \$24.1 million) are expected to be released to the income statement within one year.

(23) Financial Risk Factors and Risk Management

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

Risk Exposures and Responses

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

The Group's senior management oversees the management of financial risks, by ensuring 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 2018 and 2017.

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 40% to 60% of the next 12 months production, between 30% and 50% in the following 12-month period, up to 40% in the subsequent 24-month period. The Group manages these risks through the use of fixed priced contracts with customers for physical delivery and derivative financial instruments including fixed priced swaps and options.

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

Notes to the financial statements

for the year ended 31 December 2018 (continued)

Group As at 31 December 2018	Market movement	Effect on profit before tax \$000	Effect on equity \$000
Brent oil price	USD10/bbl increase	(40,965)	(194,575)
Brent oil price	USD10/bbl decrease	28,507	194,575
NBP gas price	GBP 0.1/therm increase	–	(65,435)
NBP gas price	GBP 0.1/therm decrease	–	65,435
Group As at 31 December 2017			
Brent oil price	USD10/bbl increase	(67,153)	(73,416)
Brent oil price	USD10/bbl decrease	50,968	73,416
NBP gas price	GBP 0.1/therm increase	–	(38,430)
NBP gas price	GBP 0.1/therm decrease	–	38,430

Note: the "effect on profit before tax" above represents movements on the fair value of crude based derivative instruments from a reasonable foreseeable change in crude prices, in relation to contingent consideration as part of the 2017 Shell acquisition, which would be reported through the income statement.

b. Interest Rate Risk

Floating rate borrowings comprise bank loans under the RBL and junior facilities which incur interest fixed six months in advance at USD Libor plus a margin of 4% to 7%. Fixed rate borrowings comprise a series of shareholder loan notes which incur interest at 10% per annum. At the option of the Company, interest on the shareholder loan notes can be capitalised into the principal amount and settled at maturity. Floating rate financial assets comprise cash

and cash equivalents which earn interest at the relevant market rate. The Group monitors its exposure to fluctuations in interest rates and may use interest rate derivatives to manage the fixed and floating composition of its borrowings. As at 31 December 2018, the Group had not entered into any interest rate derivatives. The interest rate and currency profile of the Group's interest-bearing financial assets and liabilities is shown below.

Group As at 31 December 2018	Cash at bank \$000	Fixed rate borrowings \$000	Floating rate borrowings \$000	Total \$000
US Dollars	302,940	(922,003)	(882,886)	(1,501,949)
Pound Sterling	12,372	–	–	12,372
Norwegian Krone	856	–	–	856
Other	143	–	–	143
	316,311	(922,003)	(882,886)	(1,488,578)

Company As at 31 December 2018				
US Dollars	19,636	(922,003)	–	(902,367)
Pound Sterling	7	–	–	7
	19,643	(922,003)	–	(902,360)

Group As at 31 December 2017				
US Dollars	279,250	(838,092)	(1,576,241)	(2,135,083)
Pound Sterling	20,288	–	–	20,288
Other	3	–	–	3
	299,541	(838,092)	(1,576,241)	2,114,792

Company As at 31 December 2017				
US Dollars	2	(838,092)	–	(838,090)
Pound Sterling	1	–	–	1
	3	(838,092)	–	(838,089)

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

Group 2018	Market movement	Effect on profit before tax \$000	Effect on equity \$000
US interest rates	+100 basis points	(5,981)	–
Group 2017			
US interest rates	+100 basis points	(13,355)	–

Notes to the financial statements

for the year ended 31 December 2018 (continued)

Foreign Currency Risk

The Group is exposed to foreign currency risk primarily arising from exchange rate movements in US Dollar against Pound 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 Pound 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. As at 31 December 2018, 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 Pound 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
Group 2018			
US Dollar/Sterling	10% strengthening	(42,607)	–
US Dollar/Sterling	10% weakening	42,607	–
Group 2017			
US Dollar/Sterling	10% strengthening	(5,542)	–
US Dollar/Sterling	10% weakening	4,667	–
Company 2018			
US Dollar/Sterling	10% strengthening	1,460	–
US Dollar/Sterling	10% weakening	(1,460)	–
Company 2017			
US Dollar/Sterling	10% strengthening	31,982	–
US Dollar/Sterling	10% weakening	(31,982)	–

Credit Risk

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

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 2018 and 2017 based on contractual undiscounted payments.

Group As at 31 December 2018	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	–	513,604	71,047	–	584,651
Junior facility	–	127,118	332,855	47,070	507,043
Loan notes	–	–	–	2,446,204	2,446,204
Other loans	22,966	1,358	–	–	24,324
Short-term payables	248,222	–	–	–	248,222
	271,188	642,080	403,902	2,493,274	3,810,444
Derivative financial liabilities					
Net-settled commodity derivatives	66,502	68,987	6,499	–	141,988
Total as at 31 December 2018	337,690	711,067	410,401	2,493,274	3,952,432
Company As at 31 December 2018					
Non-derivative financial liabilities					
Loan notes	–	–	–	2,446,204	2,446,204
Short-term payables	1,467	–	–	–	1,467
Total as at 31 December 2018	1,467	–	–	2,446,204	2,447,671

Notes to the Financial Statements

for the Year Ended 31 December 2018 (continued)

Group As at 31 December 2017	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	133,998	523,827	774,247	–	1,432,072
Junior facility	17,594	124,864	333,411	50,427	526,296
Loan notes	–	–	–	2,446,204	2,446,204
Short-term payables	432,340	–	–	–	432,340
	583,932	648,691	1,107,658	2,496,631	4,836,912
Derivative Financial Liabilities					
Net-settled commodity derivatives	42,410	39,873	32,867	–	115,150
Total as at 31 December 2017	626,342	688,564	1,140,525	2,496,631	4,952,062
Company As at 31 December 2017					
	Within one year \$000	1 to 2 years \$000	2 to 5 years \$000	Over 5 years \$000	Total \$000
Non-derivative financial liabilities					
Loan notes	–	–	–	2,446,204	2,446,204
Short-term payables	361	–	–	–	361
Total as at 31 December 2017	361	–	–	2,446,204	2,446,565

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

(24) Called Up Share Capital

Allotted, called up and fully paid	No.	2018 \$000	No.	2017 \$000
F Ordinary shares of £0.01 each	981,100	12	981,100	12
G Ordinary shares of £0.40 each	18,900	10	18,900	10
M Ordinary shares of £0.01 each	9,580	–	9,305	–
	–	22	–	22

During the year, the Company issued 275 M shares for nil consideration.

In 2017, the Company issued 981,100 F ordinary shares of £0.01 each for a total cash consideration of \$67.8 million, 18,900 G ordinary shares of £0.01 each for nil consideration and 9,305 M ordinary shares for cash consideration of \$0.1 million. A further 275 shares were issued in 2018 which is held in trust but not paid up.

As at 31 December 2018, 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.

(25) Notes to the Statement of Cash Flows

Net cash flows from operating activities consist of:

Group	2018 \$000	2017 \$000
Profit before taxation	578,401	471
Finance expenses, excluding foreign exchange	270,293	43,978
Finance income, excluding foreign exchange	(8,622)	(260)
Depreciation, depletion and amortisation	629,154	100,847
Credit due to reduction in decommissioning provision	(44,485)	–
Exploration costs written-off	10,731	7,276
Remeasurement on commodity price contingent consideration	734	21,365
Decommissioning payments	(21,502)	–
Remeasurement on exploration contingent consideration	(217)	–
Realised cash flow hedges not yet settled	(693)	–
Share option reserve	–	2
Unrealised foreign exchange (gain)/loss	(36,904)	1,724
Decrease in royalty consideration receivable	1,673	12,171
Working capital adjustments:		
Decrease in inventories	1,857	29,758
Decrease/(increase) in trade and other receivables	32,578	(193,913)
Increase in trade and other payables	34,844	30,608
Net cash inflow from operating activities	1,447,842	54,027

Notes to the financial statements for the year ended 31 December 2018 (continued)

Company	2018 \$000	2017 \$000
(Loss)/profit before taxation	(94,962)	8,828
Finance expenses, excluding foreign exchange	83,911	15,203
Finance income, excluding foreign exchange	(117)	(24,045)
Depreciation, depletion and amortisation	–	73
Share option reserve	–	2
Unrealised foreign exchange loss/(gain)	840	(5,206)
Working capital adjustments:		
Decrease/(increase) in trade and other receivables	28,745	(183)
Increase/(decrease) in trade and other payables	1,107	(706)
Net cash inflow/(outflow) from operating activities	19,524	(6,034)

Reconciliation of Net Cash Flow to Movement in Net Borrowings

Group	2018 \$000	2017 \$000
Proceeds from issue of loan notes	–	(822,893)
Proceeds from drawdown of borrowing facilities	–	(1,635,000)
Proceeds from financing arrangement	(20,400)	–
Repayment of senior debt	735,000	–
Transaction costs capitalised	–	59,254
Financing arrangement interest payable	(3,924)	–
Amortisation of transaction costs capitalised	(17,321)	(2,820)
Currency translation adjustment on transaction costs	–	2,325
Loan notes interest capitalised	(83,911)	(15,199)
Movement in total borrowings	609,444	(2,414,333)
Movement in cash and cash equivalents	16,770	295,459
Decrease/(increase) in net borrowings in the year	626,214	(2,118,874)
Opening (net borrowings)/cash	(2,114,792)	4,082
Closing net borrowings	(1,488,578)	(2,114,792)

Company	2018 \$000	2017 \$000
Proceeds from issue of loan notes	–	(822,893)
Loan notes interest capitalised	(83,911)	(15,199)
Movement in total borrowings	(83,911)	(838,092)
Movement in cash and cash equivalents	19,640	(3,663)
Increase in net borrowings in the year	(64,271)	(841,755)
Opening (net borrowings)/cash	(838,089)	3,666
Closing net borrowings	(902,360)	(838,089)

Analysis of Net Borrowings

Group	2018 \$000	2017 \$000
Cash and cash equivalents	316,311	299,541
Reserves Based Loan facility	(464,277)	(1,183,915)
Junior facility	(394,285)	(392,326)
Net debt	(542,251)	(1,276,700)
Shareholder loan notes	(922,003)	(838,092)
Financing arrangement	(24,324)	-
Closing net borrowings	(1,488,578)	(2,114,792)
Company		
Cash and cash equivalents	19,643	3
Shareholder loan notes	(922,003)	(838,092)
Closing net borrowings	(902,360)	(838,089)

Notes to the financial statements

for the year ended 31 December 2018 (continued)

(26) Related Party Disclosures

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

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

Share Capital (Group and Company)

The Company completed a restructure of equity in 2017 following the agreement to acquire the package of North Sea assets from Shell. As part of the restructure Harbour Energy subscribed for 480,000 F ordinary shares of £0.01 each for a total cash consideration of \$67.8 million. In addition, 9,040 M ordinary shares of £0.01 each were issued to certain members of key management for cash consideration of £10 per share, with a further 275 M ordinary shares of £0.01 each, issued for nil consideration to key management in 2018.

Transactions Between the Company and Subsidiary Entities

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

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

Shareholder Loan Notes (Group and Company)

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

As at 31 December 2018, the carrying amount of D and E loan notes due to Harbour Energy was \$890.1 million (2017: \$809.1 million) and the value of C loan notes due to key management personnel was \$1.9 million (2017: \$1.7 million). The amount of interest charged to the income statement associated with loan notes payable to Harbour Energy and key management was \$81.0 million and \$0.2 million respectively (2017: \$12.8 million and \$0.1 million respectively).

The Company also pays governance and monitoring fees to its institutional shareholders. For the year ended 31 December 2018, the total fees payable to Harbour Energy amounted to \$8.6 million (2017: \$2.6 million) and to other shareholders \$1.0 million (2017: \$1.0 million) with \$nil outstanding as at the balance sheet date (2017: \$nil).

Key Management Compensation

During 2017, the Group widened its key management team in preparation for the acquisition of the UK North Sea assets and business. Remuneration of key management personnel of the Group is shown below. The remuneration of the Non-Executive Chairman and Harbour-appointed directors for their board roles of the Company is wholly paid by Harbour Energy.

Group	2018 \$000	2017 \$000
Salaries and short-term benefits	5,749	2,755
Payments made in lieu of pension contributions	525	153
Pension benefits	122	76
	6,396	2,984

The payments made in lieu of pension contributions were made at the same rates as pension contributions made to employees.

(27) Post Balance Sheet Events

On 18 April 2019 Chrysaor E&P Limited, a subsidiary of Chrysaor Holdings Limited, announced it had signed an agreement to acquire ConocoPhillips' UK oil and gas business ("ConocoPhillips UK") for \$2.675 billion. The three most material assets in the portfolio include new operated hubs in the UK Central North Sea - Britannia and J-Block; together with a non-operated interest in the Clair Field, West of Shetlands. The assets being acquired produced 72,000 barrels of oil equivalent per day (boepd) in 2018. The transaction has an effective date of 1 January 2018 and is expected to complete in late 2019.

Including the assets acquired from ConocoPhillips, at 1 January 2019, Chrysaor's pro forma 2P reserves total over 600 mboe. Pro forma production in 2019 is expected to increase to just under 190,000 boepd, driven by the active drilling and development programmes across the Company's existing and newly acquired assets.

In the UK Southern North Sea, Chrysaor will assume responsibility for an ongoing decommissioning programme on ConocoPhillips UK's end-of-life assets. This decommissioning programme is very well advanced and proceeding in accordance with ConocoPhillips' plans.

Chrysaor will fund the acquisition from existing cash resources and an upsized \$3 billion Reserve Based Lending debt facility underwritten by BNP Paribas, DNB (UK) Limited, ING Bank N.V., and Bank of Montreal (London Branch).

Glossary

2P	Proven and probable reserves.
BBL	Barrel
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
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 Per Barrel (DD&A)	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.
DNV	Det Norske Veritas-Germanischer Lloyd.
EBITDAX	Is defined as earnings before tax, interest, depreciation and amortisation, remeasurements and exploration expenditure. This is a useful indicator of underlying business performance.
Free Cash Flow	Defined as EBITDAX less capital expenditure
mmboe	Million barrels of oil equivalent
mmboepd	Million barrels of oil equivalent per day
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.
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, net debt and are defined above.
OPEC	Organisation of Petroleum Exporting Countries
