

Chrysaor (U.K.) Theta Limited

Registered Company Number 01491002

Report and Financial Statements

31 December 2021

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Chrysaor (U.K.) Theta Limited

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Chrysaor (U.K.) Theta Limited

Corporate information

Directors

Alexander Krane
Howard Landes

Secretary

Howard Landes

Independent auditor

Ernst & Young LLP
2 Marischal Square
Broad Street
Aberdeen
AB10 1BL

Registered office

Brettenham House
Lancaster Place
London
United Kingdom
WC2E 7EN

Company No. 01491002

Chrysaor (U.K.) Theta Limited

Strategic report

The directors present their strategic report for the year ended 31 December 2021.

Principal activities and review of the business

Until 31 March 2021, Chrysaor (U.K.) Theta Limited (the "Company") was part of the Chrysaor group of companies (the "Chrysaor Group"). On 31 March 2021, the Chrysaor Group completed the all-share merger with Premier Oil plc forming the largest independent oil and gas company listed on the London Stock Exchange (the "Group").

The Company's immediate parent company is Chrysaor (U.K.) Sigma Limited. Following completion of the all-share merger, the Company's ultimate and controlling parent is Harbour Energy plc.

The Company's principal activities are the acquisition, exploration, development and production of oil and gas reserves on the UK Continental Shelf. The Group's principal activities are the acquisition, exploration, development and production of oil and gas reserves on the UK and Norwegian Continental Shelves, Indonesia, Vietnam and Mexico. Further information can be found in Harbour Energy plc's consolidated annual report and accounts for the year ended 31 December 2021 (the "Group Report").

The Company also holds the Group's investment in Chrysaor (U.K.) Lambda Limited, a company registered in Ireland.

Business review

The Group owns a 58.65 percent equity in the operated Britannia field, of which 9.01 percent is owned by the Company. The Brodgar, Callanish, Enochdhu, Alder and Finlaggan satellite fields tie back to Britannia and combined form the Greater Britannia Area (GBA).

GBA was the Group's largest producer in 2021, underpinned by high uptime. The Callanish F5 well was brought online in the first quarter and the third party Finlaggan field started up in the fourth quarter with its associated tariff leading to improved hub margins. A planned six week maintenance campaign was completed in 2021 and further production and plant optimisation is planned for 2022. Following its move to single train operations, GBA is now one of the Group's lowest greenhouse gas emitters on an intensity basis.

The Company owns a 20 percent interest in the Victor field in the Southern North Sea (SNS). Production from the SNS fields ceased permanently in August 2018 and the Group has responsibility for a well advanced decommissioning programme in the SNS. This programme has continued to deliver a strong safety, operational and cost performance, leveraging the Group's significant in-house expertise. The Company also holds a non-operated interest in the non-producing Don field which is undergoing decommissioning.

Financial performance and position

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

Production and revenue

Production for 2021 averaged 1.8 mboepd compared to 2.2 mboepd during 2020.

The Company generated revenue of £39.4 million for the year (2020: £12.6 million).

Operating profit

An operating profit of £26.3 million was recognised during the year (2020: £1.8 million).

Cost of sales for the year totalled £11.5 million (2020: £12.0 million), which included depreciation charges on oil and gas assets of £2.2 million (2020: £5.1 million). A charge of £0.2 million (2020: credit £1.3 million) was recognised in respect of movements in over/under-lift balances and hydrocarbon inventories.

Chrysaor (U.K.) Theta Limited

Strategic report (continued)

The Company recognised a charge of £1.6 million (2020: credit of £1.3 million) within the income statement in relation to updates to decommissioning estimates for non-producing assets.

Net financing costs

Net financing costs for the year totalled £1.2 million (2020: £2.3 million).

Taxation

Taxation charge amounted to £8.4 million (2020: credit of £0.3 million), split between the current tax expense of £8.6 million (2020: £0.7 million) and a deferred tax credit of £0.2 million (2020: £1.0 million).

Profit for the financial year

Profit after tax for the year was £16.8 million (2020: loss of £0.3 million).

Capital expenditure

During the year, the Company incurred capital spend of £1.1 million (2020: £1.1 million).

Balance sheet and capital structure

At 31 December 2021, the balance sheet showed net assets of £201.4 million (2020: £184.6 million), consisting of non-current assets of £244.6 million (2020: £249.6 million), net current assets of £23.8 million (2020: £6.5 million) and non-current liabilities of £67.0 million (2020: £71.5 million).

Total equity balance of £201.4 million (2020: £184.6 million) consists of share capital of £5.5 million (2020: £5.5 million), share premium of £0.1 million (2020: £0.1 million), other reserves of £80.7 million (2020: £80.7 million) and retained earnings of £115.1 million (2020: £98.3 million).

Insurance

The Company undertakes a significant and appropriate range of insurance programmes to minimise the risk to its operational and investment programmes, which includes business interruption insurance.

Key performance indicators (KPIs)

The Group's activities consist of one class of business being the acquisition, exploration, development and production of oil and gas reserves. The Company's KPIs are aligned with those of the Group. Further information about KPIs in the context of the Group business can be found in the Group Report and are reflected in the 'Financial performance and position' section above.

Principal risks and uncertainties

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

Section 172 Companies Act 2006

The Group adopted the requirement to include a compliance statement in relation to Section 172 Companies Act 2006. Further information can be found in the Group strategic report within the Group Report.

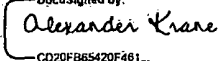
Chrysaor (U.K.) Theta Limited

Strategic report (continued)

Streamlined energy and carbon reporting

The Group adopted the requirements of The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 and has reported all relevant emissions and energy data in relation to Streamlined Energy and Carbon Reporting. Further information can be found in the Group Report and the supplementary ESG Report.

On behalf of the Board

DocuSigned by:

CD20FB65420F461...
Alexander Krane (Director)
22 September 2022

Chrysaor (U.K.) Theta Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Directors

The following served as directors of the Company during the year and up to the date of signing of the financial statements:

Alexander Krane (appointed 20 October 2021)
Howard Landes (appointed 20 October 2021)
Phil Kirk (resigned 28 February 2022)
Andrew Osborne (resigned 26 October 2021)

Secretary

Howard Landes served as company secretary during the year and up to the date of signing of the financial statements.

Results and dividends

The profit for the financial year amounted to £16.8 million (2020: loss of £0.3 million). During the year, the Company did not pay any dividends (2020: £nil). The directors do not recommend the payment of a final dividend (2020: £nil).

Financial instruments

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

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

Future developments

Future activities will include the continuation of operating and developing the Company's existing licences, and the continuation of the Group SNS decommissioning programme.

Post balance sheet events

On 26 May 2022, the UK Government announced the introduction of an Energy Profits Levy ('EPL') on the profits earned from the production of oil and gas in the UK with effect from that date. The EPL enabling legislation, the Energy (Oil and Gas) Profits Levy Act 2022, was substantively enacted on 11 July 2022. The EPL is charged at the rate of 25 percent on taxable profits in addition to ring fence corporation tax of 30 percent and the Supplementary Charge of 10 percent. The EPL tax is a temporary measure and as enacted will cease to apply on 31 December 2025. The introduction of EPL will have a consequential effect on the Company's future tax charge. If the introduction of EPL had been substantively enacted at the current balance sheet date then there would have been no material impact on the deferred tax asset.

Directors' liabilities

The Company has made qualifying third-party indemnity provisions for the benefit of the directors which were made during the period and remain force at the date of this report.

Going concern

The directors have adopted the going concern basis of accounting for the preparation of the financial statements as the Company's ultimate parent company, Harbour Energy plc, has undertaken to directly provide the necessary financial support to the Company, as and when required, to meet all liabilities for a period of 12 months from the date of signing these financial statements. In making their assessment of going concern, the directors have considered the letter of support from Harbour Energy plc and are confident that it has adequate resources to support the Company for 12 months from the date of signing these financial statements.

Chrysaor (U.K.) Theta Limited

Directors' report (continued)

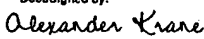
Disclosure of information to the auditor

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

Independent auditor

In May 2021, PricewaterhouseCoopers LLP resigned as independent auditor of the Company and Ernst & Young LLP were appointed. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

On behalf of the Board

DocuSigned by:

CD20FB65420F461

Alexander Krane (Director)

22 September 2022

Company Registered No. 01491002

Chrysaor (U.K.) Theta Limited

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net income or loss of the Company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

Opinion

We have audited the financial statements of Chrysaor (U.K.) Theta Limited for the year ended 31 December 2021 which comprise the income statement, balance sheet, statement of changes in equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent auditor's report (continued)

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, environmental, GDPR and anti-bribery and corruption.
- We understood how Chrysaor (U.K.) Theta Limited is complying with those frameworks by making enquiries of management, legal counsel and the Company Secretary to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this to supporting documentation. We corroborated the results of our enquiries through our review of Board minutes and correspondence received from regulatory bodies and noted there was no contradictory evidence.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the degree of incentive, opportunity and rationalisation that may exist to perform fraud. Where fraud risks were identified, we applied journal entry selection criteria to identify journals that were considered unusual or indicative of potential fraud before tracing such transactions back to source information to test their validity and appropriateness.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, enquiries of legal counsel, and focused testing, including in respect of management override through manual journals.

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

Independent auditor's report (continued)

Use of our report

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

Ernst & Young LLP

Gemma Noble (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen

22/09/22

Chrysaor (U.K.) Theta Limited

Income statement

For the year ended 31 December

	<i>Note</i>	<i>2021</i> <i>£000</i>	<i>2020</i> <i>£000</i>
Revenue	3	39,434	12,582
Cost of sales		(11,508)	(12,015)
Gross profit		<u>27,926</u>	<u>567</u>
(Expense)/credit due to revisions to decommissioning estimates		(1,631)	1,254
Operating profit	4	26,295	1,821
Finance income	6	183	17
Finance expenses	6	(1,339)	(2,345)
Profit/(loss) before taxation		25,139	(507)
Tax (expense)/credit	7	(8,353)	251
Profit/(loss) for the financial year		<u>16,786</u>	<u>(256)</u>

No other comprehensive income or expense arose during the year ended 31 December 2021 (2020: £nil).

The notes on pages 16 to 33 form part of these financial statements.

Chrysaor (U.K.) Theta Limited

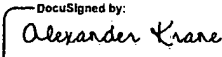
Balance sheet

As at 31 December

	Note	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	8	8,744	13,961
Investments	9	1	1
Deferred taxation	7	25,875	25,657
Debtors: amounts falling due after more than one year	12	210,000	210,000
Total non-current assets		244,620	249,619
Current assets			
Inventories	10	2,070	2,192
Debtors: amounts falling due within one year	11	77,494	39,154
Cash and cash equivalents	13	-	28
Total current assets		79,564	41,374
Total assets		324,184	290,993
Current liabilities			
Creditors: amounts falling due within one year	14	(52,812)	(32,525)
Provisions	15	(2,935)	(2,351)
Total current liabilities		(55,747)	(34,876)
Non-current liabilities			
Provisions	15	(67,033)	(71,499)
Total non-current liabilities		(67,033)	(71,499)
Total liabilities		(122,780)	(106,375)
Net assets		201,404	184,618
Capital and reserves			
Called up share capital	16	5,502	5,502
Share premium		91	91
Other reserves	17	80,745	80,745
Retained earnings		115,066	98,280
Total equity		201,404	184,618

The notes on pages 16 to 33 form part of these financial statements.

The financial statements on pages 13 to 33 were approved by the Board of Directors on 22 September 2022 and signed on its behalf by:

DocuSigned by:

 Alexander Krane (Director)
 22 September 2022

Company Registration No. 01491002

Chrysaor (U.K.) Theta Limited

Statement of changes in equity

For the year ended 31 December

	<i>Called up share capital</i>	<i>Share premium</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2020	5,502	91	80,745	98,536	184,874
Loss for the financial year	-	-	-	(256)	(256)
At 31 December 2020	5,502	91	80,745	98,280	184,618
Profit for the financial year	-	-	-	16,786	16,786
At 31 December 2021	5,502	91	80,745	115,066	201,404

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021

1. Authorisation of financial statements

The financial statements of the Company for the year ended 31 December 2021 were authorised for issue by the board of directors on 22 September 2022 and the balance sheet was signed on the board's behalf by Alexander Krane.

The Company is a private company limited by share capital, incorporated and domiciled in the United Kingdom. The Company's principal place of business is London, United Kingdom and its registered office is Brettenham House, Lancaster Place, London, WC2E 7EN.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

Basis of preparation

The financial statements are prepared on the historical cost basis, except for certain financial assets and liabilities which have been measured at fair value, and are in accordance with The Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101"). The financial statements are presented in pounds Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise stated.

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

The accounting policies which follow, set out those policies which apply in preparing the financial statements for the year ended 31 December 2021 under FRS 101. All accounting policies have been applied consistently, other than where new policies have been adopted. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of IFRS 7 *Financial Instruments: Disclosures*,
- b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*
- c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*; and
 - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
- d) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*;
- e) the requirements of IAS 7 *Statement of Cash Flows*;
- f) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- g) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- h) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- i) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*.

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

Going concern

The directors have adopted the going concern basis of accounting for the preparation of the financial statements as the Company's ultimate parent company, Harbour Energy plc, has undertaken to directly provide the necessary financial support to the Company, as and when required, to meet all liabilities for a period of 12 months from the date of signing these financial statements. In making their assessment of going concern, the directors have considered the letter of support from Harbour Energy plc and are confident that it has adequate resources to support the Company for 12 months from the date of signing these financial statements.

Segment reporting

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

Joint arrangements

A joint arrangement is one in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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 Company recognises its:

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

Foreign currency translation

The Company's functional currency and presentation currency is pounds Sterling.

Transactions in foreign currencies are initially recorded in the Company's functional currency by applying an average rate of exchange. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are recognised through the income statement. Non-monetary assets and liabilities denominated in foreign currencies are measured at historic cost based on exchange rates at the date of the transaction and subsequently not retranslated.

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

Oil and gas development and production assets are accumulated generally on a field-by-field basis. This represents expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development.

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

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

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset, that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the expenditure is capitalised. All other day-to-day repairs and maintenance costs are expensed as incurred.

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is provided generally on a field-by-field basis, using the unit of production method by reference to the ratio of production in the year and the related commercial proven and probable reserves of the field, taking into account future development expenditures necessary to bring those reserves into production. When there is a change in the estimated total recoverable proven and probable reserves of a field, that change is accounted for in the depreciation charge over the revised remaining proven and probable reserves.

Impairment of non-current assets

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

Investments

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

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

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).

Financial assets held at amortised cost

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

Cash and cash equivalents

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

Impairment of financial assets

The 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.

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

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

Default events could include:

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

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

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

Credit impaired financial assets

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

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

b. Financial liabilities

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

Borrowings and loans

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

Derecognition

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

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

c. Fair values

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows.

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.

Other reserves

Other reserves represents a capital investment in the Company, without any shares of the Company being issued in exchange.

Inventories

All inventories, except for petroleum products, are stated at the lower of cost and net realisable value. The cost of materials is the purchase cost, determined on a first-in, first-out basis. Petroleum products and underlift and overlift positions are measured at net realisable value using an observable year-end oil or gas market price, and are included in inventories, other debtors or creditors respectively.

Provisions for liabilities

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

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

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

Trade payables

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

Taxes***i. Current tax***

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

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

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

ii. Deferred tax

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

- Deferred income tax assets are recognised only to the extent that it is probable that the taxable profit will be available against which the deductible temporary difference, carried forward tax credits or tax losses can be utilised. This includes ensuring that the Company has the ability to carry back decommissioning tax losses against prior period profits.
- Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised, or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date. The carrying amount of the deferred income tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
- Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to offset current assets against current tax liabilities, the deferred income tax relates to the same tax authority and that same tax authority permits the Company to make a single net payment.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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 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

Differences between the production sold and the Company's share of production result in an overlift or an underlift. Overlift and underlift are valued at net realisable value using an observable year-end oil or gas market price and included within payables or receivables respectively. Movements during the accounting period are recognised within cost of sales in the income statement such that gross profit is recognised on an entitlement basis.

Interest income

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

New accounting standards and interpretations

IBOR reform and other amendments and interpretations applying for the first time in 2021 do not have an impact on the financial statements of the Company.

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

Accounting standards issued but not yet effective

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

Amendments to IAS 1, Presentation of Financial Statements - classification of liabilities as current or non-current

On 23 January 2020, the IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The Company does not consider this amendment to have significant impact on the classification of its liabilities as either current or non-current when the standard becomes effective on 1 January 2023.

Amendments to IFRS 3 - Reference to the Conceptual Framework

The IASB issued amendments to IFRS 3 to update the reference to the 2018 Conceptual Framework. The amendments add an exception to the recognition principle for liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21 and clarify existing guidance for contingent assets. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Amendments to IAS 8 - Definition of Accounting Estimates

In February 2021, the International Accounting Standards Board issued Definition of Accounting Estimates, which amended IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments introduced the definition of accounting estimates and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies, with the distinction important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies

In February 2021, the International Accounting Standards Board issued amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

On 7 May 2021, the IASB issued amendments to IAS 12 Income Taxes. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. According to the amended guidance, a temporary difference that arises on initial recognition of an asset or liability is not subject to the initial recognition exemption if that transaction gave rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments listed above are not expected to have a material impact on the Company.

Critical accounting judgements and estimates

The preparation of the Company's financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions at the date of the financial statements. Estimates and assumptions are continuously evaluated and are based on management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

In particular the Company has identified the following areas where significant judgement, estimates and assumptions are required.

Critical accounting judgements

- carrying value of property, plant and equipment regarding assessing assets for indicators of impairment;
- decommissioning costs, including the timing of when decommissioning would occur; and
- tax and recognition of deferred tax assets, relating to the extent to which future taxable profits are included in the assessment of recoverability; and
- the impact of climate change.

Key sources of estimation uncertainty

- *Recoverability of oil and gas assets*

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

The Company's estimate of recoverable value of assets is sensitive to commodity prices and discount rate. A change in the long-term price assumptions of 10 percent and an increase in the discount rate of 1 percent are considered to be reasonably possible for the purposes of sensitivity analysis, the results of which can be found in note 8.

- *Decommissioning costs*

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The Company assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, 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

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

in an increase to the decommissioning provision of approximately £7 million. This change would be principally offset by a change to the value of the associated asset, which would be reflected as an immediate impairment in the financial statements for any non-producing assets.

- *Recovery of deferred tax assets*

Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Company will recover the value. This includes ensuring that the company has the ability to carry back decommissioning tax losses against prior period profits.

- *Climate change*

The Group monitors global climate change and energy transition developments and plans accordingly. Management recognises there is a general high level of uncertainty about the speed and scale of impacts which, together with limited historical information, provides significant challenges in the preparation of forecasts and plans with a range of possible future scenarios.

All new economic investment decisions include the cost of carbon and opportunities are assessed on their climate-impact potential and alignment with Harbour Energy's Net Zero goal, taking into consideration both greenhouse gas volumes and intensity. Emissions reduction incentives are part of staff remuneration and annual bonus schemes.

As a result, climate change and the energy transition have the potential to significantly impact the accounting estimates adopted by management and therefore the valuation of assets and liabilities reported on the balance sheet. On an ongoing basis management continues to assess the potential impacts on the significant judgements and estimates used in the financial statements. Estimates adopted in the preparation of the financial statements reflect management's best estimate of future market conditions where, in particular, commodity prices can be volatile. Notwithstanding the challenges around climate change and the energy transition, it is management's view that the financial statements are consistent with the disclosures in this report.

Property, plant and equipment - depreciation and expected useful lives

The energy transition has the potential to reduce the expected useful lives of assets and consequently accelerate depreciation charges. No changes have been identified or recognised to date.

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

3. Revenue

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

	2021 £000	2020 £000
Crude oil sales	4,224	1,935
Gas sales	33,313	9,057
Condensate and liquefied petroleum gas sales	717	338
Tariff income	1,179	1,247
Other sundry sales	1	5
	<u>39,434</u>	<u>12,582</u>

Revenues of £39.4 million (2020: £12.6 million) were from contracts with customers.

4. Operating profit

This is stated after charging/(crediting):

	2021 £000	2020 £000
Depreciation of property, plant and equipment	2,172	5,148
Expense/(credit) due to revisions to decommissioning estimates (note 8)	1,631	(1,254)
Movement in over/underlift balances and hydrocarbon inventories	155	(1,244)
Auditor's remuneration - audit of the financial statements	-	-

For the year ended 31 December 2021, the auditor's remuneration of £60,000 (2020: £40,000) was borne by another group company and was not recharged to the Company.

Any fees paid to the Company's auditor for services other than the statutory audit of the Company are disclosed on a consolidated basis in the group financial statements of the Company's ultimate parent, Harbour Energy plc.

5. Staff costs and directors' remuneration

The Company had no employees during the year (2020: nil). All contracts of employment are held with other group companies.

The directors received no remuneration for their services to the Company in the current or preceding year. All directors' contracts of employment are held with other group companies. The Company's directors believe that it is not practicable to apportion their remuneration between qualifying services for the Company and other group companies in which they hold office.

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

6. Finance income and finance expenses

	2021 £000	2020 £000
Finance income		
Other interest receivable	17	17
Foreign exchange gain	166	-
	<u>183</u>	<u>17</u>
Finance expenses		
Other interest payable	(133)	(178)
Unwinding of discount on decommissioning provisions (note 15)	(1,206)	(1,638)
Foreign exchange loss	-	(529)
	<u>(1,339)</u>	<u>(2,345)</u>
Net finance expenses	<u>(1,156)</u>	<u>(2,328)</u>

7. Tax (expense)/credit

(a) Tax expense/(credit) in the income statement

The major components of income tax expense/(credit) for the years ended 31 December 2021 and 2020 are:

	2021 £000	2020 £000
Current income tax:		
UK corporation tax	10,962	1,291
Amounts under provided in previous year	242	152
Group relief - prior year	(1,364)	(342)
UK petroleum revenue tax	(1,269)	(362)
Total current income tax	<u>8,571</u>	<u>739</u>
Deferred tax:		
Origination and reversal of temporary differences	(619)	(1,653)
Amounts under provided in previous year	1	-
UK petroleum revenue tax	400	663
Total deferred tax	<u>(218)</u>	<u>(990)</u>
Tax expense/(credit) in the income statement	<u>8,353</u>	<u>(251)</u>

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

Tax (expense)/credit (continued)**(b) Reconciliation of the total tax expense/(credit)**

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

	2021 £000	2020 £000
Profit/(loss) before taxation	25,139	(507)
Tax calculated at UK standard rate of corporation tax for UK ring-fence companies of 40% (2020: 40%)	10,056	(203)
<i>Effects of:</i>		
Impact of losses relieved at different rates	(58)	(36)
Items not allowable for tax purposes/not taxable	(3)	(3)
Adjustments recognised for tax of prior periods	243	152
Effects of group/other reliefs	(1,364)	(341)
Petroleum revenue tax (net of corporation tax)	(521)	180
Tax expense/(credit) reported in the income statement	8,353	(251)

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

	Accelerated capital allowances £000	Decommissioning £000	Net deferred PRT (i) £000	Total £000
As at 1 January 2020	(6,945)	30,210	1,402	24,667
Deferred tax credit/(expense)	2,057	(669)	(398)	990
At 31 December 2020	(4,888)	29,541	1,004	25,657
Deferred tax credit/(expense)	2,011	(1,553)	(240)	218
At 31 December 2021	(2,877)	27,988	764	25,875

(i) The deferred PRT amounts include the effect of deferred corporation tax

Deferred tax assets are recognised to the extent that the future benefit is probable. Relevant tax law is considered, together with the ability to carry back decommissioning tax losses against prior period profits.

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

Tax (expense)/credit (continued)

Changes in tax rate

Legislation was introduced in Finance Act 2021 to increase the main rate of UK corporation tax for non-ring fence profits from 19 percent to 25 percent from 1 April 2023. This change did not have a material impact on the Company.

On 26 May 2022, the UK Government announced the introduction of an Energy Profits Levy ('EPL') on the profits earned from the production of oil and gas in the UK with effect from that date. The EPL enabling legislation, the Energy (Oil and Gas) Profits Levy Act 2022, was substantively enacted on 11 July 2022. The EPL is charged at the rate of 25 percent on taxable profits in addition to ring fence corporation tax of 30 percent and the Supplementary Charge of 10 percent. The EPL tax is a temporary measure and as enacted will cease to apply on 31 December 2025. The introduction of EPL will have a consequential effect on the Company's future tax charge. If the introduction of EPL had been substantively enacted at the current balance sheet date then there would have been no material impact on the deferred tax asset.

8. Property, plant and equipment

*Oil & gas
development
& production
assets
£000*

Cost:

At 1 January 2021	530,815
Additions	1,064
Revision of decommissioning asset	(2,478)
At 31 December 2021	<u>529,401</u>

Accumulated depreciation:

At 1 January 2021	516,854
Charge for the year	2,172
Impairment charge due to revisions to decommissioning estimates	1,631
At 31 December 2021	<u>520,657</u>

Net book value:

At 31 December 2021	<u>8,744</u>
At 31 December 2020	<u>13,961</u>

A net decrease of £2.5 million to decommissioning assets was recognised as a result of an update to decommissioning estimates (note 15). The increase in the decommissioning asset for non-producing assets of £1.6 million has been recorded as an immediate charge in the income statement.

No impairment charge was recognised during the year (2020: £nil).

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

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

Property, plant and equipment (continued)

The Company uses the fair value less cost of disposal method (FVLCD) to calculate the recoverable amount of the cash generating units (CGU) consistent with a level 3 fair value measurement. In determining the recoverable amount, appropriate discounted-cash-flow valuation models were used, incorporating market-based assumptions. Management's commodity price curve assumptions are benchmarked against a range of external forward price curves on a regular basis. Individual field price differentials are then applied. The first two years reflect the market forward price curves transitioning to a long-term price from 2024, thereafter inflated at 2 percent per annum. The long-term commodity prices used were \$65 per barrel for crude and 60p per therm for gas.

Production volumes are based on life of field production profiles for each asset within the CGU. Proven and probable reserves are estimates of the amount of oil and gas that can be

economically extracted from the Company's oil and gas assets. The Company estimates its reserves using standard recognised evaluation techniques, assessed at least annually by management. Proven and probable reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices.

Operating expenditure, capital expenditure and decommissioning costs are derived from the Company's Business Plan. The discount rate reflects management's estimate of the Company's Weighted Average Cost of Capital (WACC).

Changes in the long-term oil and gas prices of 10 percent and an increase in the discount rate of 1 percent are considered to be reasonably possible changes for the purpose of sensitivity analysis. Decreases to the long-term crude and gas prices specified above and an 1 percent increase in the discount rate would not result in an impairment charge.

9. Investments

	<i>Equity</i> <i>£000</i>
Cost:	
At 1 January 2021 and 31 December 2021	18
Accumulated impairment losses:	
At 1 January 2021 and 31 December 2021	17
Net book value:	
At 31 December 2021	1
At 31 December 2020	1

At 31 December 2021, the subsidiary undertaking of the Company was:

<i>Name of Company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Main activity</i>
Chrysaor (U.K.) Lambda Limited	UK	100%	100%	Dormant company

The Company holds 100% of the ordinary share capital and voting rights and 99% of the €1.26997 shares in Chrysaor (U.K.) Lambda Limited. Chrysaor (U.K.) Lambda Limited is incorporated and domiciled in the Republic of Ireland. The overseas company address of Chrysaor (U.K.) Lambda Limited is Riverside One, Sir John Rogerson's Quay, Dublin 2, D02 X576.

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

10. Inventories

	2021 £000	2020 £000
Consumables and subsea supplies	2,070	2,192
	<u>2,070</u>	<u>2,192</u>

11. Debtors: amounts falling due within one year

	2021 £000	2020 £000
Trade debtors	9,874	3,467
Underlift position	-	16
Amounts owed by group undertakings	66,283	35,262
Current tax receivable	1,270	362
Prepayments and accrued income	67	47
	<u>77,494</u>	<u>39,154</u>

Trade receivables are non-interest bearing and are generally on 20 to 30 days' terms. All amounts owed by group undertakings are unsecured, interest free and are repayable on demand. As at 31 December 2021, no ECLs have been recognised relating to trade receivables and amounts owed by group undertakings (2020: £nil).

12. Debtors: amounts falling due after more than one year

	2021 £000	2020 £000
Amounts owed by group undertakings	210,000	210,000
	<u>210,000</u>	<u>210,000</u>

The Company has confirmed that it will not seek repayment of the group loans of £210.0 million until at least 12 months from the date of approval of these financial statements and so the loans have been classified as long term. The loans are unsecured, interest free and are repayable on demand. As at 31 December 2021, no ECLs have been recognised relating to amounts owed by group undertakings (2020: £nil).

13. Cash and cash equivalents

	2021 £000	2020 £000
Cash at bank and in hand	-	28
	<u>-</u>	<u>28</u>

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

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

14. Creditors: amounts falling due within one year

	2021 £000	2020 £000
Other creditors	2,216	1,777
Overlift position	139	-
Amounts owed to group undertakings	42,677	26,559
Accruals and deferred income	48	841
Corporation tax payable	7,732	3,348
	<u>52,812</u>	<u>32,525</u>

All amounts due to group undertakings are unsecured, interest free and are repayable on demand.

15. Provisions

	<i>Decommissioning provision £000</i>
At 1 January 2021	73,850
Change in estimate - decrease decommissioning asset	(2,478)
Utilisation of provision	(2,610)
Unwinding of discount	1,206
At 31 December 2021	<u>69,968</u>
At 31 December 2021	
Current	2,935
Non-current	67,033
	<u>69,968</u>
At 31 December 2020	
Current	2,351
Non-current	71,499
	<u>73,850</u>

The Company provides for the estimated future decommissioning costs on its oil and gas assets at the balance sheet date. The payment dates of expected decommissioning costs are uncertain and are based on economic assumptions of the fields concerned. The Company currently expects to incur decommissioning costs over the next 30 years, the majority of which are anticipated to be incurred between the next 10-20 years. Decommissioning provisions are discounted at a risk-free rate of between 0.7% and 1.8% (2020: 1.3% and 1.7%) and the unwinding of the discount is presented within finance costs.

Chrysaor (U.K.) Theta Limited

Notes to the financial statements

For the year ended 31 December 2021 (continued)

Provisions (continued)

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

16. Called up share capital

	2021	2020	2021	2020
	No.	No.	£000	£000
<i>Allotted, called up and fully paid</i>				
Ordinary "A" shares of £1.00 each	5,240,000	5,240,000	5,240	5,240
Ordinary "B" shares of £0.05 each	5,240,000	5,240,000	262	262
			<u>5,502</u>	<u>5,502</u>

The company has two classes of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital on either class of share. There was no issuance of ordinary shares in 2021 or 2020.

17. Other reserves

Other reserves relate to amounts contributed to the Company by its former immediate parent undertaking. In April 1998, the Company received a capital contribution of \$80.0 million (£49.7 million) by way of a transfer of a promissory note with Saga Petroleum International AS. The promissory note was subsequently cancelled in exchange for repayment of amounts due to Saga Petroleum International AS by the Company. In November 1998 the Company received a further capital contribution of \$50.0 million (£31.0 million) from its former immediate parent undertaking by way of cash.

18. Capital commitments

As at 31 December 2021, the Company had placed contracts for capital expenditure amounting to £0.6 million (2020: £1.2 million). Where the commitment relates to a joint arrangement, the amount represents the Company's net share of the commitment. Where the Company is not the operator of the joint arrangement then the amounts are based on the Company's net share of committed future work programmes.

19. Post balance sheet events

On 26 May 2022, the UK Government announced the introduction of an Energy Profits Levy ('EPL') on the profits earned from the production of oil and gas in the UK with effect from that date. The EPL enabling legislation, the Energy (Oil and Gas) Profits Levy Act 2022, was substantively enacted on 11 July 2022. The EPL is charged at the rate of 25 percent on taxable profits in addition to ring fence corporation tax of 30 percent and the Supplementary Charge of 10 percent. The EPL tax is a temporary measure and as enacted will cease to apply on 31 December 2025. The introduction of EPL will have a consequential effect on the Company's future tax charge. If the introduction of EPL had been substantively enacted at the current balance sheet date then there would have been no material impact on the deferred tax asset.

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Notes to the financial statements

For the year ended 31 December 2021 (continued)

20. Related party disclosure

In accordance with FR5101.8 (k), the Company is exempt from the requirement to disclose Group related party transactions since the Company is 100% controlled within the Group and the group financial statements of the Company's ultimate parent undertaking, Harbour Energy plc, are publicly available from Companies House.

21. Ultimate parent undertaking and controlling party

The Company's immediate parent company is Chrysaor (U.K.) Sigma Limited. The Company's ultimate and controlling parent is Harbour Energy plc, a company incorporated in Great Britain and registered in Scotland.

Harbour Energy plc is the parent undertaking of the largest and the smallest group of undertakings for which group financial statements are prepared and of which the Company is a member. Copies of these financial statements are available upon request from Harbour Energy plc, 23 Lower Belgrave Street, London, SW1W 0NR.