CNOOC ETTRICK U.K. LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

A Company Registered in England and Wales, No. 03976014
Registered Office: Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU

CNOOC ETTRICK U.K. LIMITED

Annual report and financial statements for the year ended 31 December 2021

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CNOOC ETTRICK U.K. LIMITED

Officers and professional advisors

DIRECTORS:	Q. Jiang Z. Wu P. Gunn D. Fang
COMPANY SECRETARY:	P. Gunn
REGISTERED OFFICE:	Prospect House 97 Oxford Road Uxbridge UB8 1LU
BANKER:	Bank of America 5 Canada Square London E14 5AQ
SOLICITOR:	Norton Rose Fulbright LLP 3 More London Riverside London SE1 2AQ
AUDITOR:	Ernst & Young LLP 1 More London Place London SE1 2AF United Kingdom

CNOOC ETTRICK U.K. LIMITED

Strategic Report

The Directors of CNOOC Ettrick U.K. Limited (the Company) present the strategic report on the affairs of the Company for the year ended 31 December 2021.

Business review

The Company made a profit after taxation of US$1,888 thousand for the year ended 31 December 2021 (2020: loss of US$19 thousand).

United Kingdom - North Sea

The Company's primary decommissioning liabilities relate to a 16.86% working interest in the Ettrick field and a 19.40% working interest in the Blackbird field.

The Ettrick field was discovered in 1981, while the Blackbird field was discovered during 2008 and brought on stream in 2009. The fields ceased production in 2016 with an approved Oil and Gas Authority (OGA) decommissioning strategy in compliance with the legislative decommissioning process. The Floating Production Storage Offloading (FPSO) disconnect and sail away was executed in 2016 and all subsea scopes were completed in 2017. Blackbird well plug and abandonment programme completed in 2018. We plan to commence plug and abandonment of the remaining Ettrick wells in 2022 and conclude the activity in 2024.

Key Performance Indicators (KPIs)

The Company had no KPIs during the year.

Principal risks and uncertainties

The field abandonment activities in the oil and gas industry involve a high degree of risk. The Directors monitor and manage these risks relating to the operations of the Company in conjunction with those of the group of which it is part and steps are taken where necessary to ensure these risks are appropriately managed.

Health, Safety and Environment (HSE): The Company is exposed to blowout, fire and spillage risks arising from decommissioning operations. Any accident which may lead to casualties, property damage and environmental pollution may have an impact on the Company's operational and financial conditions.

Joint Venture: Operations in the oil and gas industry are conducted in a joint venture environment. There is a risk that co-venturers either do not have the financial capacity or are not aligned in their objectives and this may lead to additional costs, inefficiencies, and delays.

Brexit: With regard to the UK's exit from the European Union on 31 January 2020 ("Brexit"), the EU and the UK have reached an agreement on a new trade arrangement, which was applied provisionally as of 1 January 2021 came into force on 1 May 2021. However, there are still uncertainties about the actual consequences of Brexit, including the possibility that Brexit will lead to instability in the financial, stock and currency exchange markets, and the possibility that the supply and availability of goods and services between the UK and the EU will be further restricted.

Credit risk: The carrying amounts of the Company's cash and cash equivalents and other receivables except for prepayments represent the Company's maximum exposure to credit risk in relation to its financial assets.

Currency risk: Our operations are sensitive to fluctuations in foreign currency exchange rates; particularly between the US dollar and the British Pound. A portion of our activities are transacted in, or referenced to, British Pounds, including decommissioning costs and operating expenses.

Approved by the Board of Directors and signed on behalf of the Board:

Q. Jiang
Director
29 September 2022

P. Gunn
Director
29 September 2022

CNOOC ETTRICK U.K. LIMITED

Directors' Report

The Directors of the Company present their annual report together with the audited financial statements for the year ended 31 December 2021.

Future prospects

Looking forward into 2022 and 2023, the Company will continue activities on the United Kingdom Continental Shelf (UKCS) relating to the ongoing decommissioning campaigns for the Ettrick and Blackbird fields. The Company has now ceased considering opportunities to acquire additional exploration and production acreage.

Dividends

No dividends were proposed or settled in 2021 (2020: Nil).

Going concern

The Directors have, at the time of approving these financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for a period to 30th September, 2023. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements. Further details regarding the adoption of the going concern basis can be found in Note 2 to the financial statements.

Directors

The Directors of the Company during the year and at the date of signing the annual report were as listed below:

Directors	Date of Appointment	Date of Resignation
J.D. Doyle	16 Oct 2014	25 Aug 2021
L. Kuang	27 Nov 2019	07 Dec 2021
Q. Jiang	04 Jun 2020	
Z. Wu	20 Jan 2021	
D. Fang	07 Dec 2021	
P. Gunn	07 Dec 2021	

J. D. Doyle was appointed as Company Secretary on 23 March 2016 and resigned on 25 August 2021.

P. Gunn was appointed as Company Secretary on 7 December 2021.

Political donations

No political donations were made during the year ended 31 December 2021 (2020: US$ Nil).

Director's indemnities

The Directors have the benefit of the indemnity provision contained in the Company's Articles of Association. This provision, which is a qualifying third-party indemnity provision as defined by Section 236 of the Companies Act 2006, was in force throughout the financial year and is currently in force.

Financial risk management objectives and policies

For details of the Company's financial risk management objectives and policies see the strategic report.

Auditor

Each of the persons who is a director at the date of the approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Ernst & Young LLP was appointed as the auditors of the Company for the year ended 31 December 2021 and has audited the accompanying financial statements.

Events after the Reporting period

Subsequent to 31 December 2021, the Decommissioning work for Ettrick-Blackbird has been deferred, the effect of this on the liability classification has been stated in note 16.

Approved by the Board of Directors and signed on behalf of the Board:

Q. Jiang
Director
29 September 2022

P. Gunn
Director
29 September 2022

CNOOC ETTRICK U.K. LIMITED

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 "Reduced Disclosure Framework". 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 situation of the Company and of the profit 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 judgments and accounting estimates that are reasonable and prudent.
- state whether applicable UK Accounting Standards 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 to the members of CNOOC Ettrick U.K. Limited

Opinion

We have audited the financial statements of CNOOC Ettrick U.K. Limited ("the Company") for the year ended December 31, 2021 which comprise the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and the related notes 1 to 16, 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 December 31, 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 to 30th September, 2023.

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.

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.

Independent auditor's report to the members of CNOOC Ettrick U.K. Limited (continued)

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 4, 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.

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 related to the reporting framework (United Kingdom Generally Accepted Accounting Practice and Companies Act, 2006); North Sea Transition Authority; those laws and

Independent auditor's report to the members of CNOOC Ettrick U.K. Limited (continued)

- regulations relating to operating license, health and safety and environmental regulation and the UK tax compliance regulation.
- We understood how CNOOC Ettrick U.K. Limited is complying with those frameworks by enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, the CNOOC group's code of conduct setting out the key principals and requirements for all staff in relation to compliance with laws and regulation, any relevant correspondence with local tax authorities and regulatory bodies and noted that there was no contradictory evidence.
- We assessed that management override of control was a judgemental area of the audit which might be more susceptible to fraud. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of potential bias: and evaluate the business rationale of any significant transactions that are unusual or outside the normal course of business.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by gaining an understanding of the entity level controls and policies that the Company applies being part of the CNOOC group.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of business; enquiries of legal counsel, management, internal audit; review of the volume and nature of complaints received by the whistleblowing.

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.

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

Mark Woodward (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 September 2022

CNOOC ETTRICK U.K. LIMITED
Statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Note	2021 US$'000	2020 US$'000
Revenues and other income			
Other income	4	12	128
		12	128
Expenses			
Decommissioning credit	11	(3,898)	(363)
Materials inventory impairment	13	43	-
General and administrative expenses	6,7	45	19
Finance costs	5	534	561
Other expenses		14	146
		(3.262)	363
Income / (Loss) from operations before provision for income taxes		3.274	(235)
Charge / (credit) for income taxes			
Current	8	(479)	(184)
Deferred	8	1,865	(32)
		1,386	(216)
Total comprehensive income / (loss) for the year		1,888	(19)

Items dealt with in the above statement of comprehensive income relate to continuing operations. All gains and losses are recorded in the statement of profit and loss. As such, there is no requirement to prepare a separate statement of comprehensive income.

See accompanying notes which form an integral part of the financial statements.

CNOOC ETTRICK U.K. LIMITED
Statement of financial position as at 31 December 2021

	Note	2021 US$'000	2020 US$'000
Assets			
Non-current assets			
Deferred tax assets	8	6,299	8,164
Total non-current assets		6,299	8,164
Current assets			
Inventories	13	150	196
Other receivables	9	289	171
Cash and cash equivalents	14	24,226	24,375
Total current assets		24,665	24,742
Total assets		30,964	32,906
Equity and liabilities			
Equity			
Issued capital	10	-	-
Retained earnings		18,203	16,315
Total equity		18,203	16,315
Non-current liabilities			
Decommissioning provision	11	906	11,941
Total non-current liabilities		906	11,941
Current liabilities			
Accounts payable, accrued, and other liabilities	12	43	106
Decommissioning provision	11	11,812	4,544
Total current liabilities		11,855	4,650
Total liabilities		12,761	16,591
Total equity and liabilities		30,964	32,906

See accompanying notes to the financial statements.

The financial statements of CNOOC Ettrick U.K. Limited, registration 03976014 were approved on behalf of the Board of Directors and authorised for issue on 29 September 2022. They were signed on its behalf by:

Q. Jiang
Director

P. Gunn
Director

CNOOC ETTRICK U.K. LIMITED
Statement of changes in equity for the year ended 31 December 2021

	Issued capital	Retained earnings	Total equity
	US$'000	US$'000	US$'000
At 1 January 2020	-	16,334	16,334
Total comprehensive loss	-	(19)	(19)
At 31 December 2020	-	16,315	16,315
Total comprehensive income	-	1,888	1,888
At 31 December 2021	-	18,203	18,203

Notes to the financial statements for the year ended 31 December 2021

1. CORPORATE INFORMATION

The financial statements of CNOOC Ettrick U.K. Limited ("the Company") for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Directors on 29 September 2022. The Company is a limited company incorporated in England and Wales and domiciled in the United Kingdom. The registered office is located at Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU.

The principal activity of the Company is the completion of the decommissioning campaigns for the Ettrick and Blackbird fields.

2. BASIS OF PREPARATION

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council (FRC). The Company is consolidated in the accounts of CNOOC Limited, whose consolidated financial statements that comply with International Financial Reporting Standards (IFRS) have been produced for public use and may be obtained from www.cnoocltd.com. The financial statements have therefore been prepared in accordance with FRS 101 "Reduced Disclosure Framework".

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of cash flow statement, standards not yet effective, presentation of comparative information in respect of certain assets, related party transactions, financial instruments, and capital management, where relevant, equivalent disclosures have been given in the group accounts of CNOOC Limited.

These financial statements for the year ended 31 December 2021 have been prepared under the historical cost convention, except as otherwise noted. The financial statements are presented in US dollars, and all values are rounded to the nearest thousands (US$'000) except when otherwise indicated.

Going Concern

At 31 December 2021, the Company has sufficient funds to repay its maturing obligations and to meet its liabilities as they fall due for a period to 30th September, 2023. In making their going concern assessment, the Directors have considered the risks and uncertainties described in the *Strategic Report on page 1*. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements

3. ACCOUNTING POLICIES

The accounting policies set out below are used to prepare the financial statements at 31 December 2021 and have been applied consistently for all periods presented in these financial statements.

(A). JOINT ARRANGEMENTS

Certain of the Company's activities are conducted through joint arrangements, which are arrangements where two or more parties have joint control. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement. We have assessed that all our joint arrangements are joint operations as parties to the contract are responsible for the assets and obligations in proportion to their respective interest. Joint operations are accounted for by recording the Company's relevant share of assets, liabilities, revenues, and expenses.

(B). USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Judgements, estimates, and underlying assumptions are reviewed on a continuous basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing the financial statements, we make judgements regarding the application of FRS 101 for the Company's accounting policies. No significant judgements were required in the year which could materially impact upon the financial statements.

(C). KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with FRS 101 requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including

(C). KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In the process of applying the Company's accounting policies, the Directors have made estimates in the following areas, which have the most significant effect on the amounts recognised in the financial statements.

Decommissioning provision

Decommissioning costs will be incurred by the Company at the end of the operating life of certain of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results. See Note 11.

The estimated decommissioning costs are reviewed annually by an internal expert.

On the basis that all other assumptions in the calculation remains 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 US $1million. This change would principally offset by a change to the value of the associated asset which in turn would be depreciated immediately. A 1% reduction of the discount rate would not have a material impact on the amount of the provision.

(D). CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

(E). INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Material inventory includes items for repairs and maintenance of oil and gas properties, determined on a weighted average basis.

(F). FINANCIAL INSTRUMENTS

All financial assets and liabilities are recognised on the statement of financial position initially at fair value when we become a party to the contractual provisions of the instrument. Subsequent measurement of the financial instruments is based on their classification. We classify each financial asset into one of the following categories: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income or financial assets at amortised cost. The classification is based on the Company's business model for managing the asset and the asset's contractual cash flow characteristics. All financial liabilities are classified at amortised cost. The classification is only changed if the Company changes its business model for managing financial assets.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases or sales) are recognised on the trade date, that is, the date that the company commits to purchase or sell the asset.

Financial instruments carried at fair value through profit and loss on our statement of financial position include cash and cash equivalents. Realized and unrealized gains and losses from financial assets carried at fair value through profit or loss are recognised in net income in the period such gains and losses arise. Transaction costs related to these financial assets are included in net income when incurred.

Financial instruments carried at cost or amortised cost includes our other receivables, accounts payable and accrued liabilities. The transaction costs are included with the initial fair value, and the instruments are carried at amortised cost using the effective interest rate method. Gains and losses on financial assets and liabilities carried at cost or amortised cost are recognised in net income when these assets and liabilities settle.

The Company performs impairment assessment under expected credit loss ("ECL") model on financial assets (including cash and cash equivalents, receivables, and long-term debt), which are subject to impairment under IFRS 9 Financial Instruments. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Notes to the financial statements for the year ended 31 December 2021 (Continued)

(F). FINANCIAL INSTRUMENTS (CONTINUED)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime

ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Company always recognises lifetime ECL for trade receivables without significant financing component. For all other instruments, the Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

(G). PROVISIONS

General

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event, and it is probable that a future outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in the statement of comprehensive income.

A contingent liability is disclosed when the existence of an obligation will only be confirmed by future events or when the amount of the obligation cannot be measured reliably.

A contingent asset is not recognised in the financial statements but is disclosed when an inflow of economic benefits is probable.

Decommissioning provision

Decommissioning provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that a future outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant, and equipment.

The amount recognised is the estimated cost of decommissioning, discounted to its present value using a current pre-tax rate that reflects where appropriate, the specific risk to the liability.

Changes in the estimated timing of decommissioning or decommissioning costs are accounted for prospectively by recording an adjustment to the provision, and a corresponding adjustment to related property, plant, and equipment.

The unwinding of the discount on the decommissioning provision is included as a finance cost.

(H). REVENUE RECOGNITION

Finance income

Finance income is recognised as it accrues using the effective interest rate method.

(I). FOREIGN CURRENCY TRANSLATION

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

Monetary balance sheet amounts denominated in a currency other than a functional currency are translated into the functional currency using exchange rates at the balance sheet dates. Gains and losses arising from this translation are included in net income. Non-monetary balance sheet amounts denominated in a currency other than a functional

(I). FOREIGN CURRENCY TRANSLATION (CONTINUED)

currency are translated using historical exchange rates at the time of the transaction.

(J). INCOME TAXES

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income. either as an expense as it relates to operating activities or as a

component of the applicable categories of other comprehensive income or loss.

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 tax laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date.

Deferred tax is provided, using the statement of financial position liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and.
- at the time of the transaction, affects neither the accounting profit nor taxable profit or loss: and
- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences. the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit and taxable temporary differences will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction. affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit and taxable temporary differences will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(K). CHANGES IN ACCOUNTING POLICIES

Following the UK's exit from the European Union, on 31 December 2020, IFRS as adopted by the European Union at that date were incorporated into UK law and became UK-adopted International Accounting Standards (UK Adopted IAS). Future changes are subject to endorsement by the UK Endorsement Board.

The company's financial statements are prepared in accordance with FRS 101 by adopting recognition, measurement and disclosure requirement of UK-adopted IAS and with the requirements of the Companies Act 2006 applicable to companies reporting under those standards.

(K). CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Transition to UK-adopted IAS has had no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The accounting policies adopted are consistent with those of the year ended 2020, except for the first-time adoption of the new and amendments to IFRS standards effective for the Company's financial year beginning on 1 January 2021. The application of the

amendments to IFRS standards in the current year has had no material impact on the company's financial statements.

The company is assessing the impact of 'Interest Rate Benchmark Reform - Phase II' Amendments to IFRS9, IAS39. IFRS7, IFRS4 and IFRS16 on contracts and arrangements for example, group intercompany loans. short term deposit facilities (Note 14). that are linked to interest rate benchmarks such as the London Interbank Offered Rate (LIBOR) with a view to transition them to SONIA (Sterling Overnight Index Average) or SOFR (Secured Overnight Financing Rate), as appropriate.

The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change.
The Company will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Notes to the financial statements for the year ended 31 December 2021 (Continued)

4. OTHER INCOME

	2021 US$'000	2020 US$'000
Finance income	12	101
Other income	-	27
	12	128

5. FINANCE COSTS

	2021 US$'000	2020 US$'000
Unwinding of discount related to decommissioning provision (note 11)	534	561
	534	561

6. STAFF COSTS & DIRECTORS' REMUNERATION

The Company did not employ any staff during the current or prior year. The Directors received no remuneration from the Company, or in respect of their services to the Company.

7. AUDITOR'S REMUNERATION

Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements amounts to US$45 thousand (2020: US$26 thousand). No fees were paid during the year to the Company's auditor for non-audit services (2020: US$ Nil).

CNOOC ETTRICK U.K. LIMITED

Notes to the financial statements for the year ended 31 December 2021 (Continued)

8. INCOME TAX

(A) PROVISION FOR INCOME TAXES

	2021	2020
	US$'000	US$'000
Current tax		
Credit for the year at 40% (2020: 40%)	(518)	(99)
Prior period adjustments	39	(85)
	(479)	(184)
Deferred tax		
Temporary differences in the current year	1,865	(32)
	1.865	(32)
Total income tax expense / (credit) recognised in net income	1,386	(216)

There was no deferred tax related to items directly charged or credited within equity.

(B) DEFERRED INCOME TAX

	Statement of profit or loss and other comprehensive income		Statement of financial position	
	2021	2020	2021	2020
	US$'000	US$'000	US$'000	US$'000
Decommissioning Provision	(1,865)	32	6.299	8,164

	2021	2020
Net deferred income tax asset	US$'000	US$'000
Analysis of movements during the year		
Asset at the beginning of the year	8,164	8,132
Annual credit in net income	(1,865)	32
Balance at the end of the year	6,299	8,164

At the balance sheet date there were deferred tax assets of US $6,299 thousands (2020: US $8,164 thousands) due to activities in the prior periods and it is anticipated that these will be recovered as the Company abandons the Ettrick and Blackbird fields.

CNOOC ETTRICK U.K. LIMITED

Notes to the financial statements for the year ended 31 December 2021 (Continued)

8. INCOME TAX (continued)

(C) RECONCILIATION OF EFFECTIVE TAX RATE TO THE UK CORPORATION TAX RATE

	2021 US$'000	2020 US$'000
Income / (loss) from operations before provision for income taxes	3,274	(235)
Provision for income taxes computed at the UK Corporation tax rate on North Sea oil & gas activities of 40% (2020: 40%)	1,309	(94)
Deduct the tax effect of:		
Prior period adjustments	39	(85)
Non-taxable income	38	(37)
	1,386	(216)

9. OTHER RECEIVABLES

	2021 US$'000	2020 US$'000
Amounts owed by affiliated undertakings	1	1
Amounts owed by parent company	172	9
Prepayments, accrued income, and others	116	161
	289	171

As at 31 December 2021, there was a US$144 thousand (2020: US $144 thousand) credit loss provision recognised for one debtor balance, none of the other receivables, at initial value, were materially impaired and substantially all receivables were aged within 30 days. The carrying value of other receivables approximates their fair value.

10. ISSUED CAPITAL

Ordinary shares of £10 each, issued and fully paid	**Shares**	**US$ per share**	**US$' 000s**
At 31 December 2020 and 2021	21	18.53	-

CNOOC ETTRICK U.K. LIMITED

Notes to the financial statements for the year ended 31 December 2021 (Continued)

11. DECOMMISSIONING PROVISION

	2021 US$'000	2020 US$'000
At 1 January	16,485	16,407
Changes in estimates[1]	(3,811)	(713)
Utilised	(404)	(120)
Unwinding of discount [2]	534	561
Exchange differences	(86)	350
At 31 December	12,718	16,485
Current portion of decommissioning provision (note 16)	(11,812)	(4,544)
At 31 December	906	11,941

[1] The discount rate used for calculating the amount of Decommissioning Provision at year end 31 December 2021. is a credit-adjusted weighted-average rate of 3.75% (2020. 3 25%), having an no impact and impact are on account of other factors (mainly change in cost estimate).

[2] The discount rate used for calculating the amount of unwinding of discount is a credit-adjusted weighted-average rate of 3.25% (2020: 3.5%)

12. ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	2021 US$'000	2020 US$'000
Amounts due to parent company	-	77
Accruals and other liabilities	43	29
	43	106

The carrying value of accounts payable, accrued. and other liabilities approximates their fair value.

13. INVENTORY

	2021 US$' 000	2020 US$' 000
Materials	194	196
Less: Provision for obsolescence	(43)	-
	150	196

Obsolescence provisions applied at the lower of cost and net realisable value. The amount of expensed material inventory during the year US$ 43 thousands. There was no material inventory written off during the year.

CNOOC ETTRICK U.K. LIMITED

Notes to the financial statements for the year ended 31 December 2021 (Continued)

14. RELATED PARTY

Ultimate and immediate parent company

At 31 December 2021, the ultimate controlling party, and the largest group of undertakings for which group accounts are drawn up, and of which the Company is a member was China National Offshore Oil Corporation (CNOOC), a company established in the People's Republic of China (PRC).

The smallest group of undertakings for which group accounts are drawn up, and of which the Company is a member is CNOOC Limited, 65/F, Bank of China Tower, 1 Garden Road, Hong Kong. The consolidated accounts of CNOOC Limited are available to the public and may be obtained from www.cnoocltd.com.

The immediate parent company for the Company is CNOOC Petroleum Europe Limited, Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU.

Year end balances with related parties

Amounts owed by and amounts due to affiliated undertakings are disclosed in notes 9 and 12 respectively.

Facilities with an affiliated undertaking

The Company has a short-term deposit facility with CNOOC UK Limited ("CNUK"), into which the Company can deposit surplus funds up to a limit of US$500,000 thousand (2020: US$500,000 thousand). The balance held by CNUK at 31 December 2021 was US$24,226 thousand (2020: US$24,375 thousand). This balance is repayable on demand and is considered a cash equivalent.

The Company has a loan facility of US$50,000 thousand (2020: US$50,000 thousand) with an interest rate of 6-month US$ LIBOR plus 3.65% (2020: 6-month US$ LIBOR plus 3.65%) with CNUK. The balance drawn at 31 December 2021 and 2020 was US$ Nil.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2021, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2020: US$ Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

15. FINANCIAL INSTRUMENTS

Financial instruments carried at fair value include cash and cash equivalents. Other financial instruments, including other receivables, accounts payable and accrued liabilities, are carried at cost or amortized cost. The carrying value of current receivables and payables approximates fair value.

16. POST BALANCE SHEET EVENTS

Decommissioning Provision – current liability

Subsequent to 31 December 2021, to facilitate a review of the delivery strategy, the decommissioning work for Ettrick-Blackbird has been deferred and commencement will be rescheduled to Q2 2022, continuing until Q4 2024, with sanction for the deferral, subject to approval of the UK's Offshore Petroleum Regulator for Environment and Decommissioning (OPRED). As a result, the amount expected to be incurred in the 12 months from 31 December 2021 is expected to be US$ 5,621 thousands compared to the current liability of US $11,812 thousands recorded at 31 December 2021.