Ithaca Energy Limited

Year ending 31 December 2019

FINANCIAL STATEMENTS

Directors' Report for the year ended 31 December 2019

The Directors present their report and the audited financial statements of Ithaca Energy Limited ("the Group") for the year ended 31 December 2019.

Principal activities and review of the business

The Group's principal activity during the year was appraisal and development of, and production from, North Sea oil and gas properties.

Ithaca Energy Limited is the parent company of an oil and gas appraisal, development and production group active in the United Kingdom's Continental Shelf ("UKCS"). In November 2019, the Group completed the $1.7 billion acquisition of Chevron North Sea Limited ("CNSL"). The transaction provides a material and important step up in the scale and breadth of the Group's asset base, adding ten additional producing field interests to the existing portfolio, along with a wider portfolio of investment opportunities from which to grow the future cashflows of the business and accelerate monetisation of the Group's existing UK tax allowances.

The success of the Group depends on the ability to deliver lower risk growth through the appraisal and development of UK undeveloped discoveries and the exploitation of its existing UK producing asset portfolio.

Ithaca's 2020 strategic focus is centred on execution of the post-acquisition business transformation programme, building out the long term growth profile of the business and exploring options to optimise the Group's capital structure.

Results and dividends

The Group's loss for the financial year recognised through the Consolidated Statement of Income was $15 million after recognising a post tax impairment of $64.1 million (2018: $118.2 million profit). A profit of $2.6 million (2018: $24.6 million) was recognised through the Consolidated Statement of Comprehensive Income. Both the Consolidated Income Statement and Consolidated Statement of Comprehensive Income results have been taken to reserves. The Directors continue to evaluate the Group's ability to pay a dividend (2018: $ nil).

Directors

The Directors who held office during the year and up to the date of this report are given below:

G Forbes (appointed 8 October 2019)
L Thomas
J Bartfeld
D Cole (resigned 8 October 2019)
G Myerson (appointed 3 January 2020)

Company Auditors

Ernst & Young LLP are the auditors to the company and have indicated their willingness to continue in office.

Covid-19

The post year end impact of Covid-19 and subsequent fall in commodity price are detailed in Note 30 of the financial statements.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Jersey Company law requires the directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles. The financial statements of the group are required by law to give a true and fair view of the state of affairs of the group at the period end and of the loss of the group for the period then ended. In preparing these financial statements, the directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with IFRS Interpretations Committee (IFRS IC) interpretations.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements prepared by the group comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

"Les Thomas"
Director 28 April 2020

Independent Auditor's Report to the members of Ithaca Energy Limited

We have audited the financial statements of Ithaca Energy Limited (the "group") for the year ended 31 December 2019 which comprise the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group 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.

Emphasis of matter – Effects of COVID-19 and recent decline in oil price

We draw attention to notes 2 and 30 of the financial statements, which describes the economic consequences the group is facing as a result of COVID-19 which is impacting commodity prices. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

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.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company, or proper 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 company's accounting records and returns; 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 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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.

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 Article 113A of the Companies (Jersey) Law 1991. 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"

Kevin Weston
for and on behalf of Ernst & Young LLP
Aberdeen, United Kingdom
28 April 2020

Notes:

The maintenance and integrity of the Ithaca Energy Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Income

For the year ended 31 December 2019

Continuing operations

	Note	2019 US$'000	*Restated ** 2018 US$'000
Revenue	*5*	**582,239**	325,612
Operating costs		**(198,713)**	(135,803)
Royalties	*6*	**(5,749)**	(4,313)
Movement in oil and gas inventory		**2,124**	19,459
Depletion, depreciation and amortisation	*12*	**(235,177)**	(147,235)
Cost of sales		**(437,515)**	(267,892)
Gross Profit		**144,724**	57,720
Exploration and evaluation expenses	*11*	**(195)**	(749)
(Loss) on disposal		**-**	(2,376)
Negative goodwill	*15*	**-**	72,885
Gain/(Loss) on financial instruments	*25*	**500**	(37,626)
Impairment of oil & gas assets	*14*	**(106,812)**	(13,173)
Administrative expenses	*7*	**(5,070)**	(4,279)
Non-recurring G&A acquisition fees	*7*	**(17,055)**	-
Foreign exchange		**985**	1,317
Finance costs	*8*	**(157,986)**	(64,831)
Interest income		**1,897**	2,717
Share of profit in associate	*15*	**-**	22,396
(Loss)/Profit Before Tax		**(139,012)**	34,001
Taxation	*23*	**124,008**	84,218
(Loss)/Profit After Tax		**(15,004)**	118,219

* Refer to Note 2, Basis of Preparation for further details on the nature of the restatement

The accompanying notes on pages 10 to 27 are an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019 US$'000	*Restated ** 2018 US$'000
(Loss)/Profit for the period		**(15,004)**	118,219
Items that may be reclassified to profit and loss			
Fair value gains on cash flow hedges	*25*	**4,325**	41,078
Deferred tax on cash flow hedges	*23*	**(1,730)**	(16,431)
Other comprehensive income		**2,595**	24,647
Total comprehensive (expense)/ income		**(12,409)**	142,865

The accompanying notes on pages 10 to 27 are an integral part of the financial statements.

Consolidated Statement of Financial Position
as at 31 December 2019

	Note	2019 US$'000	Restated * 2018 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**15,059**	17,478
Accounts receivable	*9*	**158,149**	117,920
Deposits, prepaid expenses and other		**8,660**	200
Inventory	*10*	**100,096**	40,738
Derivative financial instruments	*26*	**59,912**	19,492
		341,876	195,828
Non current assets			
Long-term receivable	*9*	**200,986**	-
Long-term inventory	*10*	**3,933**	4,139
Exploration and evaluation assets	*11*	**47,428**	38,746
Property, plant & equipment	*12*	**3,196,228**	1,205,815
Deferred tax assets	*23*	**234,128**	580,335
Derivative financial instruments	*26*	**41,044**	11,491
Goodwill	*13*	**928,804**	123,510
		4,652,551	1,964,036
Total assets		**4,994,427**	2,159,864
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	*18*	**(368,462)**	(200,671)
Other current liabilities	*20*	**(5,942)**	-
Contingent consideration	*21*	**(8,250)**	(18,250)
Derivative financial instruments	*26*	**(48,293)**	-
		(430,947)	(218,921)
Non current liabilities			
Borrowings	*16*	**(1,763,984)**	(696,149)
Decommissioning liabilities	*19*	**(1,194,607)**	(245,298)
Other long term liabilities	*20*	**(130,986)**	(132,735)
Derivative financial instruments	*26*	**(4,551)**	-
Contingent consideration	*21*	**(3,600)**	(3,600)
		(3,097,728)	(1,077,782)
Net Assets		**1,465,752**	863,161
Shareholders' equity			
Share capital	*22*	**640,979**	635,077
Share premium	*22*	**609,098**	-
Cash flow hedge reserve		**27,242**	24,647
Retained earnings		**188,433**	203,437
Total equity		**1,465,752**	863,161

* Refer to Note 2, Basis of Preparation for further details on the nature of the restatement

The financial statements were approved by the Board of Directors on 28 April 2020 and signed on its behalf by:

"Les Thomas"
Director

The accompanying notes on pages 10 to 27 are an integral part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share Capital	Share Premium	Cash Flow Hedge	*Restated ** Retained Earnings	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Balance, 1 January 2018	635,077	-	-	85,218	720,295
Profit for the year	-	-	-	118,219	118,219
Other comprehensive income	-	-	24,647	-	24,647
Balance, 31 December 2018	**635,077**	**-**	**24,647**	**203,437**	**863,161**
Balance, 1 January 2019	635,077	-	24,647	203,437	863,161
Share capital issued (note 22)	5,902	609,098	-	-	615,000
Loss for the year	-	-	-	(15,004)	(15,004)
Other comprehensive income	-	-	2,595	-	2,595
Balance, 31 December 2019	**640,979**	**609,098**	**27,242**	**188,433**	**1,465,752**

* Refer to Note 2, Basis of Preparation for further details on the nature of the restatement

The accompanying notes on pages 10 to 27 are an integral part of the financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 December 2019

	Note	2019 US$'000	*Restated ** 2018 US$'000
CASH PROVIDED BY /(USED IN):			
Operating activities			
(Loss)/Profit Before Tax		**(139,012)**	34,001
Adjustments for:			
Depletion, depreciation and amortisation	*12*	**235,177**	147,235
Exploration and evaluation expenses	*11*	**195**	749
Impairment of oil & gas assets	*14*	**106,812**	13,173
Loan fee amortisation	*8*	**14,751**	4,939
Revaluation of financial instruments	*25*	**(9,931)**	(15,177)
Loss on disposal		**-**	2,376
Negative goodwill		**-**	(72,886)
Accretion	*8*	**20,378**	8,998
Bank interest & charges		**76,640**	50,894
Financial instrument put premiums		**44,320**	-
Share of associate profits		**-**	(22,395)
Cashflow from operations		**349,330**	151,907
Changes in inventory, receivables and payables relating to operating activities		**(14,678)**	(84,049)
Net cash from operating activities		**334,652**	67,858
Investing activities			
Capital expenditure		**(196,486)**	(62,187)
Proceeds on disposal		**-**	52,181
Cost of acquisition	*15*	**(1,726,929)**	(125,291)
Contingent consideration payment		**(10,000)**	(5,400)
Loan repaid from associate		**-**	24,121
Decommissioning expenditure	*19*	**(8,706)**	(4,351)
Changes in receivables and payables relating to investing activities		**32,602**	13,417
Net cash used in investing activities		**(1,909,519)**	(107,510)
Financing activities			
Receipt from issue of equity to Delek		**615,000**	-
Bond issue		**500,000**	-
Loan draw down		**598,500**	70,640
Bank interest & charges		**(98,130)**	(43,237)
Financial instrument put premiums		**(44,320)**	
Net cash from financing activities		**1,571,050**	27,403
Currency translation differences relating to cash		**1,398**	(815)
Decrease in cash & cash equivalents		**(2,419)**	(13,064)
Cash and cash equivalents, beginning of period		**17,478**	30,542
Cash and cash equivalents, end of period		**15,059**	17,478

* Refer to Note 2, Basis of Preparation for further details on the nature of the restatement

The accompanying notes on pages 10 to 27 are an integral part of the financial statements.

Notes to the Financial Statements

1. NATURE OF OPERATIONS

Ithaca Energy Inc. was incorporated in Alberta, Canada on 27 April 2004. It continued into Jersey on 31 July 2018 and changed its name to Ithaca Energy Limited (the "Group" or "Ithaca"). Ithaca Energy Limited, incorporated and domiciled in Jersey, Channel Islands, is a group involved in the development and production of oil and gas in the North Sea. The Group's registered office is 47 Esplanade, St Helier, Jersey JE1 0BD.

2. BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with IFRS Interpretations Committee (IFRS IC) interpretations.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand (US$'000), except when otherwise indicated.

The financial statements for the period ended 31 December 2018 have been restated to reflect working capital true-ups to the provisional fair values attributed to the business combination accounting for the acquisition of the Greater Stella Area ("GSA") licences and associated infrastructure interests of Dyas UK Limited and Petrofac Limited in December 2018 (the "GSA Transaction"). Restatements have been reflected through negative goodwill, accounts receivable and accounts payable within the twelve month window as follows:

	Original	**Restated**	**Variance**
	US$'000	US$'000	US$'000
Accounts receivable	120,653	117,920	(2,733)
Accounts payable	(200,454)	(200,671)	(217)
Negative goodwill/retained earnings	206,387	203,437	2,950

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATION UNCERTAINTY

Basis of measurement

The consolidated financial statements have been prepared on a going concern basis using the historical cost convention, except for the revaluation of certain financial assets and financial liabilities (under IFRS) to fair value, including derivative instruments.

Going concern

Factors likely to affect the future development of the Group are lower commodity prices and a reduction in production due to personnel restrictions. The actions taken to mitigate the potential impact of covid-19 are:

- Deferral of capital programmes
- Reduction of operating expenditure
- Hedging of commodity prices.

Management closely monitors the funding position throughout the year including monitoring continued compliance with covenants and available facilities to ensure sufficient headroom to fund operations. Forecasts are produced regularly along with any related sensitivity analysis to allow proactive management of any business risks including liquidity risk.

Using these forecasts and sensitivities along with along with additional stress testing including a sustained low oil price and interruption to production and the actions outlined in response to covid-19, the directors are satisfied that they have a reasonable basis upon which to conclude that the group is able to continue as a going concern.

Additional stress testing included:

- Reduction of the commodity prices to $1/bbl for oil for the remainder of the year
- Interruption of production on all assets for 4 months

Based on their assessment of the group's financial position, the company's directors believe that the group will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

The consolidated financial statements of the Group include the financial statements of Ithaca Energy Limited and all wholly-owned subsidiaries as listed per note 28. Ithaca has twenty wholly-owned subsidiaries. All intergroup transactions and balances have been eliminated on consolidation.

Subsidiaries are all entities, including structured entities, over which the group has control. The group controls an entity when the group is exposed to or has rights to variable returns from its investments with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated on the date that control ceases.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of completion of the acquisition. Acquisition costs incurred are expensed and included in administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the Group's share of the net assets acquired, the difference is recognised directly in the statement of income as negative goodwill.

Goodwill

Capitalisation

Goodwill acquired through business combinations is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised as the fair value of the Group's share of the identifiable net assets acquired and liabilities assumed. If this consideration is lower than the fair value of the identifiable assets acquired, the difference is recognised in the statement of income. Technical goodwill arises on business combinations as a result of recognising a deferred tax liability under IFRS 3 fair value accounting.

Impairment

Goodwill is tested annually for impairment and also when circumstances indicate that the carrying value may be at risk of being impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit ("CGU") to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the statement of income. Impairment losses relating to goodwill cannot be reversed in future periods. The CGU for the purposes of the goodwill test is the North Sea ie. the entire Ithaca portfolio of oil and gas assets.

Interest in joint operations

Under IFRS 11, joint arrangements are those that convey joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Associates are investments over which the Group has significant influence but not control or joint control, and generally holds between 20% and 50% of the voting rights.

Under the equity method, investments are carried at cost plus post-acquisition changes in the Group's share of net assets, less any impairment in value in individual investments. The consolidated income statement reflects the Group's share of the results and operations after tax and interest.

The Group's interest in joint operations (eg exploration and production arrangements) are accounted for by recognising its assets (including its share of assets held jointly), its liabilities (including its share of liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of revenue from the sale of output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Revenue

The sale of crude oil, gas or condensate represents a single performance obligation, being the sale of barrels equivalent on collection of a cargo or on delivery of commodity into an infrastructure. Revenue is accordingly recognised for this performance obligation when control over the corresponding commodity is transferred to the customer. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for products in the normal course of business, net of discounts, customs duties and sales taxes.

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the Group and its subsidiaries operate (the ‘functional currency’). The consolidated financial statements are presented in United States Dollars, which is the Group’s functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

Cash and cash equivalents

For the purpose of the statement of cash flow, cash and cash equivalents include investments with an original maturity of three months or less.

Financial instruments

All financial instruments, other than those designated as effective hedging instruments, are initially recognised at fair value on the statement of financial position. The Group’s financial instruments consist of cash, accounts receivable, deposits, derivatives, accounts payable, accrued liabilities, contingent consideration. Under IFRS 9, with the exception of derivatives and contingent consideration, all financial instruments will be recorded at amortised cost based on an analysis of the business model and terms of financial assets. There is no change to the classification of financial liabilities. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods is dependent on the classification of the respective financial instrument.

IFRS 9 classifications:

Cash and cash equivalents are classified at amortised cost which equates to its fair value. Accounts receivable and long term receivables are classified and carried at amortised cost as they have a business model of held to collect and the terms meet the solely payments of principle and interest criteria. Accounts payable, accrued liabilities, certain other long-term liabilities, and long-term debt are classified as other financial liabilities. Although the Group does not intend to trade its derivative financial instruments, they are required to be carried at fair value though profit or loss.

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or liability and original issue discounts on long-term debt have been included in the carrying value of the related financial asset or liability and are amortised to consolidated net earnings over the life of the financial instrument using the effective interest method.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss. Amounts accumulated in other comprehensive income are transferred to the profit or loss in the period when the hedged item will affect the profit or loss. When the hedged item no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in other comprehensive income is transferred to profit and loss when the forecast transaction which was the subject of the hedge occurs.

Where put options are used as hedging instruments, only the intrinsic value of the option is designated as the hedge, with the change in time value recorded in finance costs within the income statement.

Analyses of the fair values of financial instruments and further details as to how they are measured are provided in notes 25 to 27.

Inventories - hydrocarbon and materials

Inventories of materials and hydrocarbon inventory supplies are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out method. Current hydrocarbon inventories are stated at fair value less cost to sell. Non-current oil and gas inventories are stated at historic cost.

Trade receivables

Trade receivables are recognised and carried at the original invoiced amount, less any provision for estimated irrecoverable amounts.

For trade receivables, the Group applies a simplified approach in calculating expected credit losses "ECLs". Therefore, the Group does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Trade payables

Trade payables are measured at cost.

Property, plant and equipment

Oil and gas expenditure – exploration and evaluation assets

Capitalisation

Pre-acquisition costs on oil and gas assets are recognised in the consolidated statement of income when incurred. Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs and other directly attributable costs of exploration and evaluation including technical, administrative and share based payment expenses are capitalised as intangible exploration and evaluation ("E&E") assets.

E&E costs are not amortised prior to the conclusion of evaluation activities. At completion of evaluation activities, if technical feasibility is demonstrated and commercial reserves are discovered then, following development sanction, the carrying value of the E&E asset is reclassified as a development and production ("D&P") asset, but only after the carrying value is assessed for impairment and where appropriate its carrying value adjusted. If after completion of evaluation activities in an area, it is not possible to determine technical feasibility and commercial viability or if the legal right to explore expires or if the Group decides not to continue exploration and evaluation activity, then the costs of such unsuccessful exploration and evaluation are written off to the statement of income in the period the relevant events occur.

Oil and gas expenditure – development and production assets

Capitalisation

Costs of bringing a field into production, including the cost of facilities, wells and subsea equipment, direct costs including staff costs together with E&E assets reclassified in accordance with the above policy, are capitalised as a D&P asset. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P asset.

Depreciation

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is calculated on a unit of production basis based on the proved and probable reserves of the asset. Any re-assessment of reserves affects the depreciation rate prospectively. Significant items of plant and equipment will normally be fully depreciated over the life of the field. However, these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur a different depreciation rate would be charged.

Impairment

For impairment review purposes the Group's oil and gas assets are analysed into cash-generating units ("CGUs") as identified in accordance with IAS 36. A review is carried out each reporting date for any indicators that the carrying value of the Group's assets may be impaired. For assets where there are such indicators, an impairment test is carried out on the CGU. The impairment test involves comparing the carrying value with the recoverable value of an asset. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use, where the value in use is determined from estimated future net cash flows. If the recoverable amount of an asset is estimated to be less that its carrying amount, the carrying amount of the asset is reduced to the recoverable amount. The resulting impairment losses are written off to the statement of income.

Non oil and natural gas operations

Computer and office equipment is recorded at cost and depreciated over its estimated useful life on a straight-line basis over three years. Furniture and fixtures are recorded at cost and depreciated over their estimated useful lives on a straight-line basis over five years.

Borrowings

All interest-bearing loans and other borrowings with banks are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, discount or premium.

Loan origination fees are capitalised and amortised over the term of the loan. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use of sale. All other borrowing costs are expensed as incurred.

Senior notes are measured at amortised cost.

Decommissioning liabilities

The Group records the present value of legal obligations associated with the retirement of long-term tangible assets, such as producing well sites and processing plants, in the period in which they are incurred with a corresponding increase in the carrying amount of the related long-term asset. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. In subsequent periods, the asset is adjusted for any changes in the estimated amount or timing of the settlement of the obligations. The carrying amounts of the associated assets are depleted using the unit of production method, in accordance with the depreciation policy for development and production assets. Actual costs to retire tangible assets are deducted from the liability as incurred.

Contingent consideration

Contingent consideration is accounted for as a financial liability and measured at fair value at the date of acquisition with any subsequent remeasurements recognised in profit or loss in accordance with IFRS 9.

Taxation

Current income tax

Current income tax assets and liabilities 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 amounts are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred tax is recognised for all deductible temporary differences and the carry-forward of unused tax losses. Deferred tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in rates is included in earnings in the period of the enactment date. Deferred tax assets are recorded in the consolidated financial statements if realisation is considered more likely than not.

The carrying amount of deferred tax assets 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 tax assets and liabilities are offset only when a legally enforceable right of offset exists and the deferred tax assets and liabilities arose in the same tax jurisdiction.

Leases

The Group assesses at contract inception all arrangements to determine whether it is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group is not a lessor in any transactions, it is only a lessee. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. the right-of-use asset is depreciated over the useful life of the asset.

The Group's right-of-use assets are included in Property, Plant and Equipment. (Note 12)

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is generally not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Finance costs and Other long term liabilities. (Notes 8 and 20)

Maintenance expenditure

Expenditure on major maintenance refits or repairs is capitalised where it enhances the life or performance of an asset above its originally assessed standard of performance; replaces an asset or part of an asset which was separately depreciated and which is then written off, or restores the economic benefits of an asset which has been fully depreciated. All other maintenance expenditure is charged to the statement of income as incurred.

Recent accounting pronouncements

The Group has considered all new and amended IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for the year ending 31 December 2019. Where the changes affect the group, the relevant application and disclosure has been made during the year to 31 December 2019. The new and amended IFRSs during the year are as detailed below:

IFRS 16 Leases
The Group applied the standard from its mandatory adoption date of 1 January 2019. The Group applied the simplified transition approach and did not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases is measured on transition as if the new rules had always been applied. All other right-of-use assets is measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). (Note 20)

The adoption of IFRS 16 did not have a material impact on the net debt, gross assets, profit from operations and finance costs of the Group in the current period. However, in the future should the Group contract equipment on longer term contracts to develop its existing licences there may be a material impact.

The following standards and amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting period beginning on or after 1 January 2020 or later periods, but the Group had not early adopted them:

- References to Conceptual Framework in IFRS Standards (1 January 2020)
- IFRS 3 Business Combinations: Definition of a business (1 January 2020)
- IFRS 7 Financial Instruments: Disclosures. Interest rate benchmark reform (1 January 2020)
- IFRS 9 Financial Instruments. Interest Rate Benchmark Reform
- IAS 1 Presentation of Financial Statements. Definition of material (1 January 2020), References to Conceptual Framework in IFRS Standards and classification of liabilities as current or non-current (1 January 2022)
- IAS 8 Accounting policies, changes in accounting estimates and errors. Definition of material and References to Conceptual ' - Framework in IFRS Standards (1 January 2020)
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement. Interest rate benchmark reform (1 January 2020).

Significant accounting judgements and estimation uncertainties

The management of the Group has to make estimates and judgements when preparing the financial statements of the Group. Uncertainties in the estimates and judgements could have an impact on the carrying amount of assets and liabilities and the Group's result. The most important estimates and judgements in relation thereto are:

Estimates in oil and gas reserves
The business of the Group is to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner. Estimates of oil and gas reserves are used in the calculations for impairment tests and accounting for depletion and decommissioning. Changes in estimates of oil and gas reserves resulting in different future production profiles will affect the discounted cash flows used in impairment testing, the anticipated date of decommissioning and the depletion charges in accordance with the unit of production method.

Estimates in impairment of oil and gas assets and goodwill
Determination of whether oil and gas assets or goodwill have suffered any impairment requires an estimation of the fair value less costs to dispose of the CGU to which oil and gas assets and goodwill have been allocated. The calculation requires the Group to estimate the future cash flows expected to arise from the CGU using discounted cash flow models comprising asset-by-asset life of field projections. Key assumptions and estimates in the impairment models relate to: commodity prices that are based on internal view of forward curve prices; discount rates derived from the Group's post-tax weighted average cost of capital, commercial reserves and the related cost profiles. As the production and related cash flows can be estimated from the Group's experience, management believes that the estimated cash flows expected to be generated over the life of each field is the appropriate basis upon which to assess goodwill and individual assets for impairment.

Determining the fair value of property, plant and equipment on business combinations

The Group determines the fair value of property, plant and equipment acquired in a business combination based on the discounted cash flows at the time of acquisition from the proven and probable reserves. In assessing the discounted cash flows, the estimated future cash flows attributable to the asset are discounted to their present value using a discount rate that reflects the market assessments of the time value of money and the risks specific to the asset at the time of the acquisition. In calculating the asset fair value, the Group will apply an internal view of forward curve prices as per the estimation of impairment of oil and gas assets and goodwill.

Decommissioning provision

Amounts used in recording a provision for decommissioning are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice. To reflect the effects due to changes in legislation, requirements, technology and price levels, the carrying amounts of decommissioning provisions are reviewed on a regular basis. The effects of changes in estimates do not give rise to prior year adjustments and are dealt with prospectively. While the Group uses its best estimates and judgement, actual results could differ from these estimates.

Taxation

The Group's operations are subject to a number of specific tax rules which apply to exploration, development and production. In addition, the tax provision is prepared before the relevant companies have filed their tax returns with the relevant tax authorities and, significantly, before these have been agreed. As a result of these factors, the tax provision process necessarily involves the use of a number of estimates and judgements including those required in calculating the effective tax rate. The Group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the likelihood of future taxable profits and the amount of deferred tax that can be recognised.

4. SEGMENTAL REPORTING

The Group operates a single class of business being oil and gas exploration, development and production and related activities in a single geographical area presently being the North Sea.

5. REVENUE

	2019 **US$'000**	2018 US$'000
Oil sales	**334,481**	187,406
Gas sales	**126,710**	109,747
NGL sales	**28,858**	23,050
Other income	**1,659**	1,155
Realised gains on oil derivative contracts	**17,051**	5,595
Realised gains/(losses) on gas derivative contracts	**73,480**	(1,341)
	582,239	325,612

6. ROYALTIES

	2019 **US$'000**	2018 US$'000
Royalties	**(5,749)**	(4,313)

Royalty costs represent 3.34% of Stella and Harrier revenue paid to the original licence holders.

7. ADMINISTRATIVE EXPENSES

	2019 **US$'000**	2018 US$'000
General & administrative	**(5,070)**	(4,279)
Non-recurring acquisition fees	**(17,055)**	-
	(22,125)	(4,279)

The non recurring acquisition fees relate to the CNSL deal completed in 4Q19. The majority of the fees reflect stamp duty paid on the transaction.

Employee benefit expense	**2019** **US$'000**	2018 US$'000
Wages and salaries	**(9,666)**	(4,348)
Social security costs	**(7,892)**	(3,780)
Pension costs	**(1,606)**	(628)
	(19,164)	(8,756)

8. FINANCE COSTS

	2019 **US$'000**	2018 US$'000
Bank interest and charges	**(41,856)**	(25,245)
Senior notes interest	**(35,658)**	(19,297)
Loan fee amortisation	**(14,751)**	(4,939)
Accretion	**(20,378)**	(8,998)
Put premiums	**(44,320)**	(938)
Other	**(1,023)**	(5,414)
	(157,986)	(64,831)

9. ACCOUNTS RECEIVABLE

Current	2019 US$'000	2018 US$'000
Trade debtors	97,840	87,779
Accrued income	60,309	30,141
	158,149	117,920

The Group regularly monitors all customer receivable balances outstanding in excess of 90 days for ECLs. As at 31 December 2019, substantially all accounts receivables are current, being defined as less than 90 days. The Group has no allowance for doubtful accounts as at 31 December 2019 (31 December 2018: $Nil).

Non-current	2019 US$'000	2018 US$'000
Decommissioning reimbursement	200,986	-

The decommissioning reimbursement represents the equal and opposite of decommissioning liabilities, net of notional tax, associated with the Heather and Strathspey fields as well as a decommissioning incentive contract on the Strathspey field (Note19) retained by the Group as part of the acquisition of CNSL.

As part of the terms of the CNSL acquisition, Chevron have the obligation to provide the security and remain financially responsible for the decommissioning obligations of CNSL in relation to these interests.

10. INVENTORY

Current	2019 US$'000	2018 US$'000
Hydrocarbon inventory	56,774	40,554
Materials inventory	43,322	184
	100,096	40,738

Non-current	2019 US$'000	2018 US$'000
Hydrocarbon inventory	3,933	4,139

11. EXPLORATION AND EVALUATION ASSETS

	US$'000
At 1 January 2018	29,234
Acquisitions	27,676
Additions	8,156
Transfer from E&E to D&P* (note 12)	(30,345)
Write offs/relinquishments	(749)
Negative impairment	4,774
At 31 December 2018	38,746
Additions	8,877
Write offs/relinquishments	(195)
At 31 December 2019	**47,428**

Following completion of geotechnical evaluation activity, certain North Sea licences were declared unsuccessful and certain prospects were declared non-commercial. This resulted in the carrying value of these licences being fully written off to nil with $0.2 million being expensed in the period to 31 December 2019.

*Subsequent to the Vorlich field development plan approval in September 2018, the Vorlich asset was transferred from E&E to D&P assets at the end of 3Q 2018.

12. PROPERTY, PLANT AND EQUIPMENT

	Right of use operating assets US$'000	Development & Producing assets US$'000	Other fixed assets US$'000	Total US$'000
Cost				
At 1 January 2018	32,169	2,683,292	3,454	2,718,915
Acquisitions [a]	-	244,904	-	244,904
Additions	-	61,419	251	61,670
Disposals [c]	-	(87,982)	-	(87,982)
Transfer from E&E to D&P (note 11)	-	30,345	-	30,345
At 31 December 2018 and 1 January 2019	32,169	2,931,978	3,705	2,967,852
Acquisitions (note 15) [e]	**13,139**	**2,145,966**	**10,064**	**2,169,169**
Additions	-	**179,785**	**8,648**	**188,432**
Derecognition on IFRS 16 [c]	**(32,169)**	-	-	**(32,169)**
At 31 December 2019	**13,139**	**5,257,729**	**22,417**	**5,293,285**
DD&A and Impairment				
At 1 January 2018	(5,369)	(1,619,442)	(3,019)	(1,627,830)
Disposals [c]	-	30,975	-	30,975
DD&A charge for the period	(1,200)	(145,935)	(100)	(147,235)
Impairment charge for the period [b]	-	(17,947)	-	(17,947)
At 31 December 2018 and 1 January 2019	(6,569)	(1,752,349)	(3,119)	(1,762,037)
DD&A charge for the period	**(400)**	**(233,215)**	**(1,562)**	**(235,177)**
Derecognition on IFRS 16 [c]	**6,969**	**-**	**-**	**6,969**
Impairment (note 14)	**-**	**(106,812)**	**-**	**(106,812)**
At 31 December 2019	**-**	**(2,092,376)**	**(4,681)**	**(2,097,057)**
NBV at 1 January 2018	26,800	1,063,850	435	1,091,085
NBV at 1 January 2019	25,600	1,179,629	586	1,205,815
NBV at 31 December 2019 -	**13,139**	**3,165,353**	**17,736**	**3,196,228**

(a) In December 2018, the Group completed the acquisition of all of the Greater Stella Area ("GSA") licences and associated infrastructure interests of Dyas UK Limited and Petrofac Limited.

(b) During 2018, the Group recorded a $17.9 million pre-tax impairment charge. The impairment was driven predominantly by cessation of production from the Fionn field resulting in the carrying value being written to nil, release of the Dons NE licence combined with decommissioning liability revisions.

(c) On 18 January 2018 the Group announced that it had entered into an agreement for the sale of its entire interest in Licences PL089, P534 and PEDL 328, which contained the onshore Wytch Farm field for a cash consideration of $53 million. This was completed on 28 March 2018 and resulted in the removal above of $87.9 million of costs and $31.0 million of DD&A.

(d) The right of use asset in 2018 related to the Pierce FPSO acquired as part of the Summit acquisition. Please see note 19 for further details of the derecognition of the right of use asset and corresponding lease.

(e) The acquisition relates to CNSL. (Note 15)

13. GOODWILL

	2019 US$'000	2018 US$'000
Balance at 1 January	**123,510**	123,510
Additions	**805,294**	-
Balance at 31 December	**928,804**	123,510

Goodwill of $805.3 million was recognised in the year on the acquisition of Chevron North Sea Limited (see note 15). This goodwill arose as the result of recognising a $868m deferred tax liability as required under IFRS 3 fair value accounting for business combinations. Absent the technical offset to deferred tax liability a bargain of $63 million would have been recognised.

The $123.5 million balance of goodwill relates to the 2014 Summit acquisition. The underlying value of the assets to which the goodwill impairment testing was performed on were sufficient to support the carrying value.

14. IMPAIRMENT

	2019 US$'000	2018 US$'000
D&P Assets	(106,812)	(17,947)
E&E assets	-	4,774
North Sea oil and gas assets	**(106,812)**	(13,173)

During 2019, the Group recorded a $106.8 million pre-tax impairment charge (2018: $13.2 million) relating to oil and gas assets. The D&P asset impairment was driven partly by the lower forward curve for both oil and gas prices resulting in impairments predominantly relating to the Stella and Dons CGUs. The review was carried out on a fair value less cost of disposal basis using risk adjusted cash flow projections discounted at a post-tax rate of 9.0%.

Applying level 3 fair value measurement techniques, for impairment of property, plant and equipment and intangible oil and gas assets, fair value less costs of disposal are determined by discounting the post-tax cash flows expected to be generated from oil and gas production net of selling costs taking into account assumptions that market participants would typically use in estimating fair values. Applying the same fair value less cost of disposal methodology, goodwill has been tested for impairment by assessing the recoverable amount of the CGU to which the goodwill relates.

The following assumptions were used in developing the cash flow model and applied over the expected life of the respective fields:

	Discount rate assumption	Price assumptions 2020	2021	2022	2023	2024
North Sea	9%	$61/bbl	$63/bbl	$66/bbl	$71/bbl	$73/bbl

The recoverable amount of the operating segment, being North Sea D&P assets, is $3,426 million.

A 10% reduction in the price deck would result in an additional post tax impairment of $432 million to PP&E and Goodwill. This impairment would be partially mitigated by: i) a reduction in Ithaca's operating cost base, and ii) an increase in value of Ithaca's commodity hedges in place by $155m.

15. BUSINESS COMBINATIONS

CNSL Acquisition

On 8 November 2019, the Group completed the acquisition of 100% of the equity of Chevron North Sea Limited ("CNSL"). The transaction added a further ten producing field interests to the existing Ithaca portfolio, four of which relate to assets operated by the Group, resulting in a marked increase in production and reserves of the Group.

Taking into account the interim period cashflows generated by CNSL since the transaction effective date of 1 January 2019, the $200 million deposit paid at signing of the transaction in May 2019 and conventional working capital adjustments, the price payable at completion of the acquisition was $1.7 billion.

To the extent that the aggregate fair value of the identifiable assets and liabilities exceeds the purchase consideration, goodwill has been recognised on the balance sheet in the year. The goodwill arising is technical goodwill, driven by the requirement of the accounting standards to book a deferred tax liability against PP&E figures which have been fair valued on a post-tax basis. This deferred tax liability was $868m. Absent the technical offset to deferred tax liability a bargain of $63 million would have been recognised.

The business combination was fair valued using the same assumptions as detailed above in note 14.

The fair values of the identifiable CNSL assets and liabilities as at the acquisition date were:

	Fair value US$'000
PP&E	2,169,171
Cash	9,782
Inventory	57,020
Trade and other receivables	76,292
Other long term receivables	200,300
Trade and other payables	(132,747)
Lease liabilities	(13,139)
Provisions	(953,543)
Deferred tax asset	376,291
Deferred tax liability	(867,668)
Total identifiable net assets at fair value	921,759
Consideration	1,727,053
Goodwill arising on acquisition	805,294

From the date of acquisition, the CNSL assets have contributed $48m of profit before tax and $175m of revenue.

There is no difference between the fair value of the trade and other receivables as stated above and the contractual amount receivable, which are all expected to be collected.

If the combination had taken place at the beginning of the year, the profit before tax from continuing operations for the period would have included an additional $240 million of profit related to the CNSL transaction and revenue contribution of the CNSL assets to the continuing operations would have been an additional $916 million.

The goodwill is not tax deductible.

2018 GSA Acquisition

In December 2018, the Group completed the acquisition of all of the Greater Stella Area ("GSA") licences and associated infrastructure interests of Dyas UK Limited and Petrofac Limited, increasing reserves by over 20 million barrels of oil equivalent and delivering full control and flexibility over the long term development of the GSA production hub. The effective date of the acquisition was 1 January 2018 ("Effective Date"), with the consideration paid at completion being subject to conventional adjustments to reflect the income and costs associated with the assets since the Effective Date.

The consideration payable comprised an initial payment at completion of the transaction of $125.6 million, plus deferred payments of $120 million payable over the period 2020 to 2023. Dependent on the future performance of the Stella and Harrier fields, Petrofac also has the opportunity to earn up to an additional $25 million by 2020.

To the extent that the aggregate fair value of the identifiable assets and liabilities exceeds the purchase consideration of the GSA assets, negative goodwill has been recognised in the consolidated statement of income for the year. A significant driver giving rise to the bargain purchase recorded for accounting purposes is the tax efficiency realised from combining the differing tax attributes of the Dyas, Petrofac and Ithaca entities. In particular, the ability of the enlarged Ithaca Group to utilise previous unrecognised losses from the acquired Petrofac companies.

The financial statements for the period ended 31 December 2018 have been restated to reflect true-ups to the provisional fair values attributed to the business combination accounting for the acquisition of the GSA licences and associated infrastructure interests of Dyas UK Limited and Petrofac Limited. Restatements have been reflected through negative goodwill, accounts receivable and accounts payable. This reduces the previously reported negative goodwill of $75.8m in 2018 to overall negative goodwill relating to the transaction of $72.8m with a corresponding reduction in working capital on the balance sheet.

The fair values of the identifiable GSA assets and liabilities as at the acquisition date were:

	Fair value US$'000
PP&E	272,580
Inventory	3,350
Trade and other receivables	13,911
Other long term receivables	117,647
Deferred tax assets	49,628
Trade and other payables	(1,792)
Provisions	(54,383)
Removal of Ithaca's investment in associate	(50,967)
Ithaca's associate shareholder loan balances netted out	(27,687)
Total identifiable net assets at fair value	322,287
Negative goodwill arising on acquisition	(72,886)
Cash consideration	125,556
Contingent Consideration (risked)	18,250
Deferred Consideration	61,604
Total consideration	**205,410**
The cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	(125,556)
Net consolidated cash outflow in 2018	**(125,556)**

If the combination had taken place at the beginning of 2018, the profit before tax from continuing operations for the period would have included approximately $12.8 million of profit related to the GSA transactions and revenue contribution of the GSA assets to the continuing operations would have been approximately $143.8 million.

Prior to the completion of the GSA transaction in December 2018, FPF-1 Limited, a Jersey incorporated company who owned and operated the FPF-1 production facility which services the Greater Stella Area was accounted for as an associate.

Summarised financial information of the investment are set out below:

	2019 US$'000	2018 US$'000
Revenue	-	53,099
Costs	-	(8,183)
Pre-operating costs	-	-
Gross profit	-	44,916
Group's share of profit for the period	-	22,395

16. BORROWINGS

Non-current	2019 US$'000	2018 US$'000
RBL facility	**(1,055,000)**	(306,500)
Senior notes	**(500,000)**	-
JP Morgan term loan	-	(300,000)
Long term bank fees	**26,691**	4,680
Long term senior notes fees	**14,325**	-
Long term Loan fees	-	5,671
Total debt (excluding equity type subordinated debt)	**(1,513,984)**	(596,149)
Delek (equity type subordinated debt)	**(250,000)**	(100,000)
Total debt	**(1,763,984)**	(696,149)

Refinancing

In November 2019, alongside completion of the CNSL acquisition, the Group completed its process of refinancing which can be summarised as follows:

Equity and Subordinated Debt

The existing $100 million Subordinated Shareholder Loan (which ranks with equity) with Delek Group Ltd. was increased to $250 million alongside a $590 million increase of the Group's issued and fully paid share capital (a further increase in share capital to the $25 million issuance in Q3 2019).

RBL Facility

The Group's existing RBL Facility size was increased to $1,650 million, extending its maturity to April 2024 and simultaneously retiring the existing $300 million Term Loan. The effective interest rate of the facility is $4.96%. Loan fees of $26.7 million relating to the RBL have been capitalised and remain to be amortised.

Issuance of Senior Notes

In July 2019, the Group announced that $500 million 9.375% senior unsecured notes due July 2024 were to be issued with interest payable semi-annually. The offer completed on 1 August 2019 and the funds were held in escrow until release at completion of the CNSL acquisition on 8 November 2019. Loan fees of $14.3 million relating to the senior notes have been capitalised and remain to be amortised.

Covenants

The Group is subject to financial and operating covenants related to the RBL facility. Failure to meet the terms of one or more of these covenants may constitute an event of default as defined in the facility agreements, potentially resulting in accelerated repayment of the debt obligations.

The Group was in compliance with all its relevant financial and operating covenants during the period.

The key financial covenants in the RBL are:

- Total projected sources of funds must exceed the total projected uses of funds for the following 12 month period (or a longer period to first production from development, if applicable)

- The ratio of the net present value of cashflows secured under the RBL for the economic life of the fields to the amount drawn under the facility must not fall below 1.15:1

- The ratio of the net present value of cashflows secured under the RBL for the life of the debt facility to the amount drawn under the facility must not fall below 1.05:1

There are no ongoing maintenance or financial covenant tests associated with the $500m unsecured noted nor the $250m subordinated shareholder loan.

Security provided against the facilities

The RBL facility are secured by the assets of the guarantor members of the Ithaca Group, such security including share pledges, floating charges and/or debentures.

17. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Non-current interest bearing loans and borrowings (note 16)

	2019 US$'000
At 1 January 2019	**(696,149)**
Cash flows	**(1,098,500)**
Bank fee amortisation	**30,665**
	(1,763,984)

18. TRADE AND OTHER PAYABLES

	2019 US$'000	2018 US$'000
Trade payables	**(235,418)**	(131,817)
Current tax payable	**(74,414)**	-
Accruals and deferred income	**(58,630)**	(68,854)
	(368,462)	(200,671)

19. DECOMMISSIONING LIABILITIES

	2019 US$'000	2018 US$'000
Balance, beginning of period	(245,298)	(190,945)
Business combination additions	(940,728)	(54,383)
Wytch Farm disposal	-	10,665
Accretion	(16,276)	(7,349)
Revision to estimates	(1,010)	(7,637)
Decommissioning provision utilised	8,705	4,351
Balance, end of period	(1,194,607)	(245,298)

The total future decommissioning liability was calculated by management based on its net ownership interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. The Group uses a risk free rate of 4.0 percent (31 December 2018: 4.0 percent) and an inflation rate of 2.0 percent (31 December 2018: 2.0 percent) over the varying lives of the assets to calculate the present value of the decommissioning liabilities. These costs are expected to be incurred at various intervals over the next 22 years.

The economic life and the timing of the obligations are dependent on commodity price and the future production profiles of the respective production and development facilities and Government legislation.

Included in the acquired decommissioning liability of $940.7 million is $273.8 of retained liabilities relating to the Heather and Strathspey fields which are fully recoverable, net of notional taxes from Chevron as part of the terms of the CNSL acquisition as per note 9.

20. OTHER LONG TERM LIABILITIES

	2019 US$'000	2018 US$'000
Lease liability	(13,139)	(27,140)
Decommissioning incentive contract	(12,814)	-
Petrofac deferred consideration	(110,975)	(105,595)
Balance, end of period	(136,928)	(132,735)

The decommissioning incentive contracts relates to a contractual liability associated with the acquisition of CNSL. Any liability which crystallises is fully recoverable, net of notional tax, from Chevron and therefore is reflected through the long term receivable. (Note 9)

The Petrofac deferred consideration relates to completion of the GSA transaction in December 2018. It is payable over a period from 2020 to 2023 and is discounted to reflect the time value of money. Interest is payable at 5% on $15 million of the consideration.

Lease liability

	2019 US$'000
At 1 January 2019	(27,140)
Derecognition of Pierce FPSO lease	25,376
Additions	(13,139)
Interest	(836)
Payments	2,600
	(13,139)
Current	(5,942)
Non-current	(7,197)
	(13,139)

The lease in 2018 related to the Pierce FPSO acquired as part of the Summit acquisition This lease and corresponding right of use asset was derecognised in 2019 in order to apply consistently the requirements of IFRS 16 and follows standard industry practice whereby non-operated partners are not deemed to have a controlling interest in the lease. The lease liabilities at 31 December 2019 relate to the Captain FPSO and office lease acquired as part of the acquisition of CNSL in 4Q19. The incremental borrowing rate applied to these leases is 5.83%.

21. CONTINGENT CONSIDERATION

Current	2019 US$'000	2018 US$'000
Balance outstanding	(8,250)	(18,250)

As part of the GSA transaction, Petrofac had the opportunity to earn up to an additional $25 million dependent on the future performance of the Stella and Harrier fields. At 31 December 2019, $8.25m is recognised to reflect risk adjusted contingent consideration, after taking account of a payment of $10 million paid during Q319 in accordance with the Petrofac SPA.

Non-current	2019 US$'000	2018 US$'000
Balance outstanding	(3,600)	(3,600)

The non-current contingent consideration balance relates to the acquisition of the Vorlich and Austen fields, with a remaining amount payable upon FDP submission of $0.6 million and subsequent payment of $3.0 million due upon defined production criteria being met.

22. SHARE CAPITAL

Authorised share capital	Number of common shares	Amount US$'000
At 31 December 2018	63,507,658,167	635,077
At 31 December 2019	117,007,658,167	1,170,077

(a) Issued

The issued share capital is as follows:

	Number of common shares	Amount US$'000
At 31 December 2018	63,507,658,167	635,077
Issuance of share capital - Delek	590,250,000	5,902
At 31 December 2019	64,097,908,167	640,979

(b) Share premium

	Amount US$'000
At 31 December 2018	-
Issuance of share capital - Delek	609,098
At 31 December 2019	609,098

In 3Q19 250,000 shares at a par value of $0.01 were issued to Delek in return for $25 million, resulting in share premium of $25 million. A further 590,000,000 shares at a par value of $0.01 were issued to Delek in 4Q19 in return for $590 million resulting in share premium of $584 million.

23. TAXATION

	2019 US$000	2018 US$000
Current tax		
Current tax charge	(22,921)	-
Total current tax charge	**(22,921)**	-
Deferred tax		
Group tax in Statement of Income	146,929	84,218
Group tax in Statement of Other Comprehensive Income	(1,730)	(16,431)
Total deferred tax credit	**145,199**	67,787

Deferred tax	2019 US$000	2018 US$000
Deferred tax		
Relating to the origination and reversal of temporary differences	106,364	28,081
Adjustment in respect of prior periods	38,835	39,706
Total tax credit	145,199	67,787

The tax on the group's loss before tax differs from the theoretical amount that would arise using the effective rate of tax applicable for UK ring fence oil and gas activities as follows:

	2019 US$000	2018 US$000
Accounting loss/ (profit) before tax	139,012	(34,001)
Fair value profit on hedges	(4,325)	(41,078)
	134,687	(75,079)
At tax rate of 40% (2018: 40%)	53,875	(30,032)
Non-deductible expense	(33,216)	7,939
Financing costs not allowed for SCT	(2,869)	(2,140)
Ring Fence Expenditure Supplement	58,700	44,480
Deferred tax effect of small field allowance	8,215	1,686
Over provided in prior years	38,835	39,706
Unrecognised tax losses	(1,261)	6,148
	122,279	67,787

Total tax credit recorded in the consolidated statement of income and other comprehensive income

The Company is UK tax resident. The effective rate of tax applicable for UK ring fence oil and gas activities in 2019 was 40% (2018: 40%) consisting of a corporation tax rate of 30% and the supplementary charge of 10%.

Deferred income tax at 31 December 2019 relates to the following:

	2019 US$000	2018 US$000
Deferred tax liability	(800,031)	(384,090)
Deferred tax asset	1,034,159	964,425
Net deferred tax asset	234,128	580,335

The gross movement on the deferred income tax account is as follows:	2019	2018
	US$000	US$000
At 1 January	580,335	462,921
Income statement credit	146,929	84,218
Other comprehensive income charge	(1,730)	(16,431)
Business combination	(491,406)	49,627
At 31 December	234,128	580,335

Deferred tax liability	Other US$000	Accelerated tax depr'n US$000	Total US$000
At 1 January 2019	(14,924)	(357,842)	(372,766)
Prior year adjustment	88	17,491	17,579
Origination and reversal of temporary differences	(6,429)	52,962	46,533
Business combination	-	(491,377)	(491,377)
At 31 December 2019	**(21,265)**	**(778,766)**	**(800,031)**

Deferred tax assets	Tax Losses US$000	Abandonment provision US$000	Total US$000
At 1 January 2019	866,637	86,464	953,101
Prior year adjustment	21,256	-	21,256
Origination and reversal of temporary differences	50,745	9,057	59,802
At 31 December 2019	**938,638**	**95,521**	**1,034,159**

Deferred income tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable under current tax legislation and using enacted tax rates that taxable profits will be available in the future against which the unused tax losses/credits can be utilised.

The UK related tax losses of $2,347 million do not expire under UK tax legislation and may be carried forward indefinitely. In addition to these losses, the Group will also benefit from the carry forward of capital allowances of $73 million, which are included in the calculation of accelerated tax depreciation above, giving a total pool of losses and allowances of $2,424 million.

Included within the deferred tax liability of $800 million is an asset of $65.1 million relating to Investment Allowance (previously Small Field Allowance), all of which is activated so can be utilised upon completion of future field developments and income generation.

The carrying value of the net deferred tax asset at 31 December 2019 of $234 million is supported by estimates of the Group's future taxable income, based on the same price and cost assumptions as used for impairment testing.

24. COMMITMENTS

	2019 US$'000	2018 US$'000
Capital commitments		
Capital commitments incurred jointly with other venturers (Ithaca's share)	105,157	55,009

25. FINANCIAL INSTRUMENTS

To estimate fair value of financial instruments, the Group uses quoted market prices when available, or industry accepted third-party models and valuation methodologies that utilise observable market data. In addition to market information, the Group incorporates transaction specific details that market participants would utilise in a fair value measurement, including the impact of non-performance risk. The Group characterises inputs used in determining fair value using a hierarchy that prioritises inputs depending on the degree to which they are observable. However, these fair value estimates may not necessarily be indicative of the amounts that could be realised or settled in a current market transaction. The three levels of the fair value hierarchy are as follows:

• Level 1 – inputs represent quoted prices in active markets for identical assets or liabilities (for example, exchange-traded commodity derivatives). Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

• Level 2 – inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, market interest rates, and volatility factors, which can be observed or corroborated in the marketplace. The Group obtains information from sources such as the New York Mercantile Exchange and independent price publications.

• Level 3 – inputs that are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value.

In forming estimates, the Group utilises the most observable inputs available for valuation purposes. If a fair value measurement reflects inputs of different levels within the hierarchy, the measurement is categorised based upon the lowest level of input that is significant to the fair value measurement. The valuation of over-the-counter financial swaps and collars is based on similar transactions observable in active markets or industry standard models that primarily rely on market observable inputs. Substantially all of the assumptions for industry standard models are observable in active markets throughout the full term of the instrument. These are categorised as Level 2.

The following table presents the Group's material financial instruments measured at fair value for each hierarchy level as of 31 December 2019:

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total Fair Value US$'000
Contingent consideration (note 21)	-	-	(11,850)	**(11,850)**
Derivative financial instrument asset	-	100,956	-	**100,956**
Derivative financial instrument liability	-	(52,844)	-	**(52,844)**

The Group started accounting for derivative contracts (excluding forex contracts) as cash flow hedges from 3Q 2018. This has resulted in the below split between the statement of income and the statement of comprehensive income.

The table below presents the total gain/(loss) on financial instruments that has been disclosed through the statement of income:

	2019 US$'000	2018 US$'000
Revaluation of forex forward contracts	**3,329**	311
Revaluation of commodity hedges	**(1,505)**	(11,887)
Revaluation of interest rate swaps	-	(794)
	1,824	(12,370)
Realised loss on forex contracts	**(977)**	(2,070)
Realised loss on commodity hedges	**(273)**	(23,016)
	(1,250)	(25,086)
Ineffectiveness on cash flow hedges	**(74)**	(170)
Total gain/(loss) on financial instruments	**500**	(37,626)

Cash flow hedge

The table below presents the total gain on financial instruments that has been disclosed through the statement of comprehensive income:

Cash flow hedges	2019 US$'000	2018 US$'000
Revaluation of derivative contracts	**14,322**	67,857
Realised gain/(loss) on derivative contracts	**36,215**	(23,463)
Amounts recycled to revenue	**(90,532)**	(4,254)
Amounts recycled to finance costs	**44,320**	938
Total gain	**4,325**	41,078

The Group has identified that it is exposed principally to these areas of market risk.

i) Commodity Risk

Commodity price risk related to crude oil prices is the Group's most significant market risk exposure. Crude oil prices and quality differentials are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. The Group is also exposed to natural gas price movements on uncontracted gas sales. Natural gas prices, in addition to the worldwide factors noted above, can also be influenced by local market conditions. The Group's expenditures are subject to the effects of inflation, and prices received for the product sold are not readily adjustable to cover any increase in expenses from inflation. The Group may periodically use different types of derivative instruments to manage its exposure to price volatility, thus mitigating fluctuations in commodity-related cash flows.

The below represents commodity hedges in place at the year end:

Derivative	Term	Volume	Average price
Oil puts	Jan 20 - Dec 21	13,455,545 bbls	$65/bbl
Oil swaps	Jan 20 - Dec 22	8,779,301 bbls	$61/bbl
Gas swaps	Jan 20 - Jun 22	299,015,482 therms	51p/therm
Gas puts	Jan 20 - Dec 21	264,990,482 therms	53p/therm

ii) Interest Risk

Calculation of interest payments for the RBL Facilities and term loan agreements incorporate LIBOR. The Group is therefore exposed to interest rate risk to the extent that LIBOR may fluctuate.

The below represents interest rate financial instruments in place:

Derivative	Term	Value	Rate
Interest rate swap	Jan 20 - Apr 21	$300 million	2.86%

iii) Foreign Exchange Rate Risk

The Group is exposed to foreign exchange risks to the extent it transacts in various currencies, while measuring and reporting its results in US Dollars. Since time passes between the recording of a receivable or payable transaction and its collection or payment, the Group is exposed to gains or losses on non USD amounts and on balance sheet translation of monetary accounts denominated in non USD amounts upon spot rate fluctuations from quarter to quarter.

The Group enters into forward contracts as a means of hedging its exposure to foreign exchange rate risks. As at 31 December 2019 the Group had £4 million per quarter hedged at a forward rate of $1.24 : £1 for the period January to September 2020.

iv) Credit Risk

The Group's accounts receivable with customers in the oil and gas industry are subject to normal industry credit risks and are unsecured. Oil production from Stella, Cook, Broom, Dons and Pierce is sold to Shell Trading International Ltd. Cook gas is sold to Shell UK Ltd and Esso Exploration & Production UK Ltd. Stella gas is sold to BP Gas Marketing and Gazprom Marketing and Trading. Stella NGLs are sold to Teeside Gas & Liquids Processing Ltd. From December 2019 oil production from the newly acquired CNSL assets is sold to BP Oil International and gas production to BP Gas Marketing.

The Group assesses partners' credit worthiness before entering into farm-in or joint venture agreements. In the past, the Group has not experienced credit loss in the collection of accounts receivable. As the Group's exploration, drilling and development activities expand with existing and new joint venture partners, the Group will assess and continuously update its management of associated credit risk and related procedures.

The Group regularly monitors all customer receivable balances outstanding in excess of 90 days for ECLs. As at 31 December 2019, substantially all accounts receivables are current, being defined as less than 90 days. The Group has no allowance for doubtful accounts as at 31 December 2019 (31 December 2018: $Nil).

The Group may be exposed to certain losses in the event that counterparties to derivative financial instruments are unable to meet the terms of the contracts. The Group's exposure is limited to those counterparties holding derivative contracts with positive fair values at the reporting date. As at 31 December 2019, exposure is $101 million (31 December 2018: $31 million).

The Group also has credit risk arising from cash and cash equivalents held with banks and financial institutions. The maximum credit exposure associated with financial assets is the carrying values.

v) Liquidity Risk

Liquidity risk includes the risk that as a result of its operational liquidity requirements the Group will not have sufficient funds to settle a transaction on the due date. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities, and by considering medium and future requirements by continuously monitoring forecast and actual cash flows. The Group considers the maturity profiles of its financial assets and liabilities. As at 31 December 2019, substantially all accounts payable are current.

The following table shows the timing of cash outflows relating to trade and other payables.

	Within 1 year US$'000	1 to 5 years US$'000
Accounts payable and accrued liabilities	**(368,462)**	-
Derivatives	**(48,293)**	**(4,551)**
Other long term liabilities	-	**(136,928)**
Borrowings	-	**(1,763,984)**
	(416,755)	**(1,905,463)**

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 US$'000	2018 US$'000
Oil swaps - cash flow hedge	**1,014**	10,003
Oil puts - cash flow hedge	**(1,402)**	17,104
Gas swaps - cash flow hedge	**47,884**	(1,000)
Gas puts - cash flow hedge	**1,700**	5,359
Interest rate swaps	**(4,725)**	(794)
FX forwards	**3,641**	311
	48,112	30,983

27. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments of the Group consist mainly of cash and cash equivalents, receivables, payables, loans and financial derivative contracts, all of which are included in these financial statements. At 31 December 2019, the classification of financial instruments and the carrying amounts reported on the balance sheet and their estimated fair values are as follows:

	2019 US$'000		2018 US$'000	
Classification	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents (Held for trading)	**15,059**	**15,059**	17,478	17,478
Derivative financial instruments (Held for trading)	**100,955**	**100,955**	30,983	30,983
Deposits	**8,660**	**8,660**	200	200
Long-term receivable (Loans and Receivables)	**200,986**	**200,986**	-	-
Bank debt (Loans and Receivables)	**(1,763,984)**	**(1,763,984)**	(696,149)	(696,149)
Contingent consideration	**(11,850)**	**(11,850)**	(21,850)	(21,850)
Derivative financial instruments (Held for trading)	**(52,844)**	**(52,844)**	-	-
Other long term liabilities	**(123,789)**	**(123,789)**	(132,735)	(132,735)

28. RELATED PARTY TRANSACTIONS

The Group's immediate parent undertaking is Delek North Sea Limited, and the ultimate parent Group is Delek Group Ltd. (incorporated in Israel). The Group's ultimate controlling party is Mr. Yitzhak (Sharon) Tshuva.

The consolidated financial statements include the financial statements of Ithaca Energy Limited (formerly Ithaca Energy Inc.) and the subsidiaries listed in the following table:

	Country of incorporation	% equity interest at 31 Dec 2019	2018
Ithaca Energy (UK) Limited	Scotland	**100%**	100%
Ithaca Minerals (North Sea) Limited	Scotland	**100%**	100%
Ithaca Energy (Holdings) Limited	Bermuda	**100%**	100%
Ithaca Energy Holdings (UK) Limited	Scotland	**100%**	100%
Ithaca Energy Holdings (North Sea) Plc	Scotland	**100%**	nil
Ithaca Oil and Gas Limited*	England and Wales	**100%**	nil
Ithaca Petroleum Ltd	England and Wales	**100%**	100%
Ithaca Causeway Limited	England and Wales	**100%**	100%
Ithaca Gamma Limited	England and Wales	**100%**	100%
Ithaca Alpha (NI) Limited	Northern Ireland	**100%**	100%
Ithaca Epsilon Limited	England and Wales	**100%**	100%
Ithaca Exploration Limited	England and Wales	**100%**	100%
Ithaca Petroleum Holdings AS	Norway	**nil**	100%
Ithaca Technology AS	Norway	**nil**	100%
Ithaca AS	Norway	**nil**	100%
Ithaca Petroleum EHF	Iceland	**100%**	100%
Ithaca SPL Limited	England and Wales	**100%**	100%
Ithaca Dorset Limited	England and Wales	**100%**	100%
Ithaca SP UK Limited	England and Wales	**100%**	100%
Ithaca Pipeline Limited	England and Wales	**nil**	100%
Ithaca GSA Holdings Limited	Jersey	**100%**	100%
Ithaca GSA Limited	Jersey	**100%**	100%
Ithaca Energy Developments UK Limited	England and Wales	**100%**	100%
FPF-1 Limited	Jersey	**100%**	100%

Transactions between subsidiaries are eliminated on consolidation.

* Previously named Chevron North Sea Limited

The following table provides the loan balances with related parties as of 31 December 2019 and 31 December 2018:

Loans due to related parties	**2019 US$'000**	2018 US$'000
Delek Group Limited	**(250,000)**	(100,000)

The following table provides remuneration provide to key management personnel for the years 31 December 2019 and 31 December 2018:

Key management personnel	**2019 US$'000**	2018 US$'000
Aggregate remuneration	**2,913**	2,585
Company pension contributions	**51**	53
	2,964	2,638

29. CONTINGENT LIABILITIES

We become involved from time to time in various claims and lawsuits arising in the ordinary course of our business. We are not, nor have we been during the past twelve months, involved in any governmental, legal or arbitration proceedings which, either individually or in the aggregate, have had, or are expected to have, a material adverse effect on our financial position or profitability, nor are any such proceedings pending or threatened.

30. SUBSEQUENT EVENTS

Subsequent to the year end, a challenging macroeconomic environment has arisen, in terms of both the Covid-19 virus and the sharp fall in oil price. The Group has addressed these issues as follows:

Clear focus on reducing the risk of spreading the Covid-19 virus and safeguarding the well-being of employees and contractors, whilst at the same time minimising the impact on the business

Beyond the risk to personnel, the most significant Covid-19 risk to the business is a potential shutdown of production resulting from an infection arising amongst the offshore workforce at one of the facilities serving the most material assets in the portfolio, Captain and the Greater Stella Area.

To minimise this risk, the Group has reduced the number of personnel on each of its operated offshore facilities to a minimum level required to maintain production and execute any critical maintenance workscopes. Measures have also been taken to minimise the risk of infected personnel travelling offshore and in the event of a suspected case arising on one of the installations, the ability to isolate and transport to shore any individuals.

Since the start of the Covid-19 situation, no related incidents have occurred offshore and the Group is now at minimum manning levels across its operated assets.

30. SUBSEQUENT EVENTS (continued)

Maintaining financial flexibility and cash flow resilience in the face of the recent dramatic fall in oil prices through the deferral of capital investment programmes

Management of the Covid-19 situation has naturally required certain planned 2020 capital investment programmes to be stopped and deferred until a time when normal offshore operations can resume. This includes the Alba infill drilling campaign that commenced at the end of 2019, along with offshore works associated with preparation for the resumption of platform drilling on the Captain field later this year.

The recent dramatic fall in the oil price has also dictated the need for the Group's wider 2020 capital expenditure plans to be revisited as part of proactively preserving the liquidity and cash flow resilience of the business. The steps that have been taken to reduce and rephase the planned capital expenditure programme include deferment of the Fotla exploration well, a reduction in activities on the Jacky decommissioning programme and the Hurricane development. Similar actions have also been taken across the non-operated asset portfolio, with operators delaying the commencement of planned infill drilling activities.

It is estimated that the 2020 capital investment programme will reduce from the previously guided level of approximately $250 million to a maximum of around $120 million.

The majority of deferred capital work programmes are not specifically centred on activities that are scheduled to materially impact 2020 production. The significant exception to this is completion of the Vorlich (34% working interest) field development programme, the execution of which is now being hindered by Covid-19 related restrictions to offshore construction activities; both in terms of completion of the remaining subsea infrastructure installation activities and also the remaining FPF-1 related workscopes. All efforts are on-going to minimise any delay to the field start-up schedule of mid-2020. Vorlich is anticipated to account for approximately 6% of forecast 2020 production.

Solid free cash flow outlook underpinned by material commodity hedging – provides the financial strength to manage the prevailing commodity price environment

Despite the recent sharp reduction in prevailing commodity prices, the Group is still expected to generate significant free cash flow in 2020 as a result of a solid production outlook, competitive cost base and strong commodity hedging position.

2020 production guidance of 70,000 to 75,000 boepd, approximately 65% liquids, had been announced at the start of the year. This range reflected the expected timing for completion of various infill drilling campaigns, start-up of the Vorlich field, the programme of planned maintenance shutdowns across the portfolio and sensitivities associated with the timing and performance of these operational programmes. The forecast clearly did not take into account potential operational disruptions arising from the management of the evolving Covid-19 situation. It is broadly forecast that the potential negative impact of Covid-19 on the initial production guidance could be up to 10%.

2020 unit operating expenditure is forecast to be reduce from $17/boe to approximately $15/boe, incorporating the potential production impact associated with managing the Covid-19 situation. This operating expenditure includes field costs and host facility and export infrastructure costs. The General and Administration ("G&A") costs of the business are estimated to be approximately $1/boe in 2020.

The free cash flow of the business is materially enhanced by the Group's commodity hedging position

At the start of 2020 hedging arrangements (swaps and put options) were in place for approximately 32 MMboe of production from the start of 2020 into 2022. This equates to around 80% of forecast 2020 oil and gas production from currently producing fields and approximately 50% in 2021, providing an average oil price floor of $62/bbl and an average gas price floor of 51p/therm over the period.

In April 2020 the majority of the 2021/22 oil hedges were reset, accelerating $150 million of cashflow. The hedges were replaced with swaps at the relevant forward curve, resulting in an average hedged oil price for 2020-2022 of $54/bbl ($51/bbl net of put premiums). No gas hedges have currently been reset.

The Group had a UK tax allowances pool of approximately $2.4 billion carried forward as of 31 December 2019. Based on current commodity prices, these allowances are forecast to shelter the Group from the payment of tax over the medium term.

Strong balance sheet underpinned by disciplined capital allocation priorities aligned with managing an unsettled commodity price environment

Net debt at 31 December 2019 was $1.55 billion, implying a net debt to EBIDAX leverage ratio of 1.6x as of the same date. Net debt at the end of the first quarter of 2020 is set to reduce to approximately $1.4 billion. The Group's debt facilities consist of a $1.65 billion reserves based lending ("RBL") facility plus $500 million senior unsecured notes.

Covid-19

The Group considers the emergence and spread of covid-19 to be a non-adjusting post balance sheet event as there was no disruption to the market, customers, employees or supply chain prior to the year end. Given the inherent uncertainties, it is not practicable at this time to determine the full impact of covid-19 on the Group or to provide a quantitative estimate of this impact.`