Ithaca Energy Limited

3Q21 FINANCIAL STATEMENTS

Consolidated Statement of Income

For the three and nine months ended 30 September 2021 and 2020

(unaudited)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2021	2020	**2021**	2020
		US$'000	US$'000	**US$'000**	US$'000
Revenue	*5*	**344,762**	267,463	**983,233**	891,495
Operating costs		**(115,355)**	(102,260)	**(319,606)**	(303,811)
Royalties	*6*	**(1,125)**	(306)	**(2,850)**	(1,576)
Movement in oil and gas inventory		**(8,786)**	(12,769)	**(56,627)**	(19,636)
Depletion, depreciation and amortisation		**(103,048)**	(72,948)	**(311,807)**	(290,482)
Cost of sales		**(228,314)**	(188,283)	**(690,890)**	(615,505)
Gross Profit		**116,448**	79,180	**292,343**	275,990
Exploration and evaluation expenses	*12*	**-**	(1,201)	**(156)**	(1,201)
Impairment reversal/(charge)	*15*	**234,309**	(3,947)	**408,110**	(1,191,004)
(Loss)/gain on financial instruments	*25*	**(1,460)**	5,024	**494**	(3,245)
Administrative expenses	*7*	**(2,236)**	(6,367)	**(11,277)**	(28,254)
Foreign exchange		**(1,601)**	3,035	**(585)**	6,771
Finance costs	*8*	**(95,863)**	(55,060)	**(196,022)**	(175,294)
Reduction in deferred consideration		**-**	-	**8,250**	4,484
Profit/(Loss) Before Tax		**249,597**	20,664	**501,157**	(1,111,753)
Taxation	*23*	**(124,109)**	(7,463)	**(235,420)**	354,474
Profit/(Loss) After Tax		**125,488**	13,201	**265,737**	(757,279)

The accompanying notes on pages 7 to 19 are an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

For the three and nine months ended 30 September 2021 and 2020
(unaudited)

	Note	Three months ended 30 September 2021 US$'000	Three months ended 30 September 2020 US$'000	Nine months ended 30 September 2021 US$'000	Nine months ended 30 September 2020 US$'000
Profit/(Loss) for the period		**125,488**	13,201	**265,737**	(757,279)
Items that may be reclassified to profit and loss					
Fair value (loss)/gain on cash flow hedges	*25*	**(318,615)**	(112,558)	**(592,813)**	180,417
Deferred tax on cash flow hedges	*23*	**127,446**	45,023	**237,125**	(72,167)
Other comprehensive (loss)/profit		**(191,169)**	(67,535)	**(355,688)**	108,250
Total comprehensive expense		**(65,681)**	(54,334)	**(89,951)**	(649,029)

The accompanying notes on pages 7 to 19 are an integral part of the financial statements.

Consolidated Statement of Financial Position
(unaudited)

	Note	30 September 2021 US$'000	*Restated* 31 December 2020 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**4,483**	1,203
Accounts receivable	*9*	**188,869**	109,213
Deposits, prepaid expenses and other	*10*	**5,499**	10,213
Inventory	*11*	**107,519**	106,692
Derivative financial instruments	*26*	**1,298**	29,042
		307,668	256,363
Non-current assets			
Long-term receivable	*9*	**237,184**	244,830
Long-term inventory	*11*	**532**	2,898
Exploration and evaluation assets	*12*	**120,436**	70,589
Property, plant & equipment	*13*	**2,784,612**	2,583,713
Deferred tax assets	*23*	**380,004**	382,114
Derivative financial instruments	*26*	**-**	2,706
Goodwill	*14*	**722,075**	722,075
		4,244,843	4,008,925
Total assets		**4,552,511**	4,265,288
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	*18*	**(403,105)**	(271,205)
Other current liabilities	*20*	**(3,803)**	(6,080)
Derivative financial instruments	*26*	**(365,871)**	(82,266)
Contingent consideration	*21*	**-**	(8,250)
		(772,779)	(367,801)
Non-current liabilities			
Borrowings	*16*	**(1,229,422)**	(1,436,883)
Decommissioning liabilities	*19*	**(1,416,017)**	(1,416,236)
Other long term liabilities	*20*	**(55,668)**	(53,826)
Derivative financial instruments	*26*	**(216,670)**	(23,636)
Contingent consideration	*21*	**(5,950)**	(5,950)
		(2,923,727)	(2,936,531)
Net assets		**856,005**	960,956
Shareholders' equity			
Share capital	*22*	**640,979**	640,979
Share premium	*22*	**609,098**	609,098
Cash flow hedge reserve		**(311,394)**	44,294
Retained (deficit)/earnings		**(82,678)**	(333,415)
Total equity		**856,005**	960,956

The financial statements were approved by the Board of Directors on 26 November 2021 and signed on its behalf by:

Director

The accompanying notes on pages 7 to 19 are an integral part of the financial statements.

Consolidated Statement of Changes in Equity
(unaudited)

	Share Capital US$'000	Share Premium US$'000	Cash Flow Hedge Reserve US$'000	Retained Earnings US$'000	Total US$'000
Balance, 1 Jan 2020	640,979	609,098	27,242	188,433	1,465,752
Profit for the period	-	-	-	(757,278)	(757,278)
Other comprehensive income	-	-	108,250	-	108,250
Dividends paid	-	-	-	(20,000)	(20,000)
Balance, 30 September 2020	640,979	609,098	135,492	(588,846)	796,724
Balance, 1 Jan 2021	**640,979**	**609,098**	**44,294**	**(333,415)**	**960,956**
Profit for the period	**-**	**-**	-	**265,737**	**265,737**
Other comprehensive expense	**-**	**-**	**(355,688)**	**-**	**(355,688)**
Dividends paid	**-**	**-**	-	**(15,000)**	**(15,000)**
Balance, 30 September 2021	**640,979**	**609,098**	**(311,394)**	**(82,678)**	**856,005**

The accompanying notes on pages 7 to 19 are an integral part of the financial statements.

Consolidated Statement of Cash Flow

For the three and nine months ended 30 September 2021 and 2020

(unaudited)		Three months ended 30 September		Nine months ended 30 September	
		2021	2020	**2021**	2020
		US$'000	US$'000	**US$'000**	US$'000
CASH PROVIDED BY / (USED IN):					
Operating activities					
Profit/(Loss) Before Tax		**249,597**	20,664	**501,157**	(1,111,752)
Adjustments for:					
Depletion, depreciation and amortisation	*13*	**103,048**	72,948	**311,807**	290,482
Exploration and evaluation expenses	*12*	**-**	1,201	**156**	1,201
Impairment		**(234,309)**	3,947	**(408,110)**	1,191,004
Reduction in deferred consideration		**-**	-	**(8,250)**	(4,484)
Loan fee amortisation	*8*	**29,503**	2,368	**34,186**	7,089
Revaluation of financial instruments	*25*	**3,619**	(6,022)	**5,615**	4,067
Hedging resets		**(25,896)**	-	**(91,452)**	155,044
Accretion		**9,548**	10,584	**28,644**	32,689
Bank interest & charges		**46,552**	25,997	**97,180**	84,279
Financial instrument put premiums		**10,209**	16,099	**35,928**	51,233
Cashflow from operations		**191,871**	147,786	**506,861**	700,852
Changes in inventory, receivables and payables relating to operating activities		**(20,309)**	36,172	**96,271**	32,790
		171,563	183,958	**603,132**	733,642
Corporation tax paid		**-**	-	**(10,004)**	(65,155)
Net cash from operating activities		**171,563**	183,958	**593,128**	668,487
Investing activities					
Capital expenditure		**(70,520)**	(31,811)	**(155,427)**	(84,122)
Decommissioning expenditure		**(5,972)**	(3,670)	**(18,464)**	(21,796)
Contingent consideration payment		**-**	-	**-**	(56,900)
Changes in receivables and payables relating to investing activities		**(10,714)**	(10,139)	**(11,467)**	(35,791)
Net cash used in investing activities		**(87,206)**	(45,620)	**(185,358)**	(198,609)
Financing activities					
Dividend payment		**-**	-	**(15,000)**	(20,000)
Loan repayment	*16*	**(20,000)**	(60,000)	**(220,000)**	(295,000)
Bank interest & charges		**(46,552)**	(25,997)	**(97,180)**	(84,279)
Cash deposits		**-**	(37,300)	**-**	(37,300)
Financial instrument put premiums		**(10,209)**	(16,099)	**(35,928)**	(51,233)
Changes in receivables and payables relating to financing activities		**(12,100)**	(5,478)	**(38,324)**	7,569
Net cash (used in) financing activities		**(88,861)**	(144,874)	**(406,432)**	(480,243)
Currency translation differences relating to cash		**676**	282	**1,942**	(641)
Increase /(Decrease) in cash & cash equiv.		**(3,828)**	(6,254)	**3,280**	(11,006)
Cash and cash equivalents, beginning of period		**8,311**	10,307	**1,203**	15,059
Cash and cash equivalents, end of period		**4,483**	4,053	**4,483**	4,053

The accompanying notes on pages 7 to 19 are an integral part of the financial statements.

1. NATURE OF OPERATIONS

Ithaca Energy Limited (the “Group” or “Ithaca”), incorporated and domiciled in Jersey, Channel Islands and 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 Group has prepared these non-statutory interim financial statements for management purposes in order to assist directors in reporting to the ultimate parent company. These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. These interim consolidated financial statements do not include all the necessary annual disclosures in accordance with IFRS.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of 26 November 2021, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Group’s annual consolidated financial statements for the year ending 31 December 2021 could result in restatement of these interim consolidated financial statements.

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

The interim consolidated financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2020.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATION UNCERTAINTY

Basis of measurement

The interim 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.

Basis of consolidation

The interim 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 (e.g. 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 and 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 the statement of income.

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 statement of income. 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 26.

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 or previously impaired assets (excluding goodwill) where a reversal of a previous impairment may arise. 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. Previously impaired assets (excluding goodwill) are reviewed for possible reversal of previous impairment at each reporting date.

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 13)

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 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

New and amended standards and interpretations need to be adopted in the first interim financial statements issued after their effective date (or date of early adoption). There are no new IFRSs or IFRICs that are effective for the first time for this interim period that would be expected to have a material impact on the Group.

New/amended IFRS's:
- IFRS 3 Definition of a Business,
- IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform, and
- IAS 1 and IAS 8 Definition of Material

IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The Group's interest rate hedging portfolio is exposed to movements in LIBOR. With the upcoming transition to SONIA all hedging documentation is being reviewed to ensure a smooth transition with minimal exposure anticipated with the change. The assumptions made to arrive at this conclusion are due to the hedging portfolio being heavily commodity based with only a small number of interest hedges. For full disclosure of Financial Instruments please refer to notes 25 and 26.

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. This includes a review of previously impaired assets (excluding goodwill) for possible reversal of a previous impairment. 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 or an impairment reversal. For further details regarding the estimate value, inputs and assumptions please refer to notes 14 and 15.

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. For further details regarding the estimate value, inputs and assumptions please refer to note 19.

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. For further details regarding the estimate value, inputs and assumptions please refer to note 23.

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

	Three months ended 30 September		Nine months ended 30 September	
	2021	2020	**2021**	2020
	US$'000	US$'000	**US$'000**	US$'000
Oil sales	**212,491**	141,080	**683,280**	456,334
Gas sales	**179,879**	29,794	**325,659**	102,826
Condensate sales	**9,417**	9,657	**30,596**	26,179
Other income	**9,079**	950	**23,203**	3,241
Realised (losses)/gains on oil derivative contracts	**(18,790)**	59,532	**(22,567)**	201,968
Realised (losses)/gains on gas derivative contracts	**(47,314)**	26,450	**(56,938)**	100,947
	344,762	267,463	**983,233**	891,495

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.

6. ROYALTIES

	Three months ended 30 September		Nine months ended 30 September	
	2021	2020	**2021**	2020
	US$'000	US$'000	**US$'000**	US$'000
Royalties	**(1,125)**	(306)	**(2,850)**	(1,576)

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

7. ADMINISTRATIVE EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2021	2020	**2021**	2020
	US$'000	US$'000	**US$'000**	US$'000
General & administrative	**(2,236)**	(5,430)	**(11,277)**	(18,452)
Non-recurring costs	**-**	(937)	**-**	(9,802)
	(2,236)	(6,367)	**(11,277)**	(28,254)

Non-recurring costs incurred in 2Q20 relate to the redundancy costs following an Employee Voluntary Redundancy programme.

8. FINANCE COSTS & INTEREST INCOME

	Three months ended 30 September		Nine months ended 30 September	
	2021	2020	**2021**	2020
	US$'000	US$'000	**US$'000**	US$'000
Bank interest and charges	**(44,108)**	(24,770)	**(92,972)**	(78,622)
Loan fee amortisation	**(29,503)**	(2,368)	**(34,186)**	(7,089)
Accretion	**(9,548)**	(10,584)	**(28,644)**	(32,689)
Put premiums	**(10,209)**	(16,099)	**(35,928)**	(51,233)
Realised gains on interest derivative contracts	**-**	(575)	**-**	(2,089)
Other	**(2,495)**	(663)	**(4,292)**	(3,573)
	(95,863)	(55,059)	**(196,022)**	(175,295)

For further details on bank and loan fees please refer to Borrowings note 16.

9. ACCOUNTS RECEIVABLE

	30 September 2021	31 December 2020
Current	**US$'000**	US$'000
Trade debtors	**100,077**	92,776
Other	**3,815**	-
Accrued income	**84,977**	16,437
	188,869	109,213

The Group regularly monitors all customer receivable balances outstanding in excess of 90 days for ECLs. As at 30 September 2021, substantially all accounts receivables are current, being defined as less than 90 days. The Group has no allowance for doubtful accounts as at 30 September 2021 (31 December 2020: $Nil).

	30 September 2021	31 December 2020
Non-current	**US$'000**	US$'000
Decommissioning reimbursement	**237,184**	244,830

The decommissioning reimbursement represents the equal and opposite of decommissioning liabilities, net of notional tax, associated with the Heather and Strathspey fields.

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. As the payment is virtually certain this has been accounted for under IAS 37.

10. DEPOSITS, PREPAID EXPENSES & OTHER

	30 September 2021	31 December 2020
Current	**US$'000**	US$'000
Prepayments	**5,499**	6,947
Decommissioning securities	-	3,266
	5,499	10,213

11. INVENTORY

	30 September 2021	31 December 2020
Current	**US$'000**	US$'000
Hydrocarbon inventory	**44,682**	53,696
Materials inventory	**62,837**	52,996
	107,519	106,692

	30 September 2021	31 December 2020
Non-current	**US$'000**	US$'000
Hydrocarbon inventory	**532**	2,898

12. EXPLORATION AND EVALUATION ASSETS

	US$'000
At 1 January 2020	47,428
Additions	19,261
Acquisitions	5,350
Write offs/relinquishments	(1,450)
At 31 December 2020 and 1 January 2021	70,589
Additions	**50,003**
Write offs/relinquishments	**(156)**
At 30 September 2021	**120,436**

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 30 September 2021 ($1.2 million in the period to 30 September 2020).

13. 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 2020	13,139	5,257,729	22,417	5,293,285
Additions	-	232,295	2,880	235,175
Reclassification	-	6,441	(6,441)	-
At 31 December 2020 and 1 January 2021	13,139	5,496,465	18,856	5,528,460
Additions	**2,512**	**99,414**	**2,670**	**104,596**
At 30 September 2021	**15,651**	**5,595,879**	**21,526**	**5,633,056**
DD&A and Impairment				
At 1 January 2020	-	(2,092,376)	(4,681)	(2,097,057)
DD&A charge for the period	(6,257)	(362,980)	(3,594)	(372,831)
Impairment (note 15)	-	(474,859)	-	(474,859)
At 31 December 2020 and 1 January 2021	(6,257)	(2,930,215)	(8,275)	(2,944,747)
DD&A charge for the period	**(3,284)**	**(304,632)**	**(3,891)**	**(311,807)**
Impairment reversal (note 15)	-	**408,110**	-	**408,110**
At 30 September 2021	**(9,541)**	**(2,826,737)**	**(12,166)**	**(2,848,444)**
NBV at 1 January 2020	13,139	3,165,353	17,736	3,196,228
NBV at 1 January 2021	6,882	2,566,250	10,581	2,583,713
NBV at 30 September 2021	**6,110**	**2,769,142**	**9,360**	**2,784,612**

14. GOODWILL

	30 September 2021 US$'000	31 December 2020 US$'000
Closing balance	**722,075**	928,804
Impairment	-	(206,729)
Balance at 31 December	**722,075**	722,075

Goodwill of $805.3 million was recognised in 2019 on the acquisition of Chevron North Sea Limited. 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. This Goodwill was impaired in 2020 by $206.7 million. The remaining $123.5 million balance of goodwill relates to the 2014 Summit acquisition.

15. IMPAIRMENT

	Three months ended 30 September		Nine months ended 30 September	
	2021 US$'000	2020 US$'000	**2021 US$'000**	2020 US$'000
D&P Assets	**234,309**	(3,947)	**408,110**	(984,275)
Goodwill	-	-	-	(206,729)
Total impairment reversal/(charge)	**234,309**	(3,947)	**408,110**	(1,191,004)

During 2021, the Group has recorded an impairment reversal of $173.8 million (2020: $1,191 million impairment charge) relating to oil and gas assets, with a further $234.3m impairment reversal recorded in 3Q 2021.

An impairment review was carried out at the end of both 2Q and 3Q 2021 driven by the higher forward curve for both oil and gas prices resulting in reversals of $408.1 million, being $397.3m on Stella and $10.8m on Alba. 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 9.75%**.**

The following assumptions were used at 3Q21 in developing the cash flow model and applied over the expected life of the respective fields:

	Discount rate assumption	Price assumptions 2021	2022	2023	2024	2025
Oil	9.75%	$70/bbl	$70/bbl	$69/bbl	$70/bbl	$71/bbl
Gas	9.75%	204p/therm	119p/therm	71p/therm	65p/therm	65p/therm

The following assumptions were used at 2Q21 in developing the cash flow model and applied over the expected life of the respective fields:

	Discount rate assumption	Price assumptions 2021	2022	2023	2024	2025
Oil	9.75%	$65/bbl	$65/bbl	$66/bbl	$68/bbl	$69/bbl
Gas	9.75%	78p/therm	70p/therm	53p/therm	54p/therm	55p/therm

A pre-tax impairment charge of $1.2 billion was recorded in the period to 30 September 2020. This impairment was carried out at the end of 1Q 2020 and was driven by the lower forward curve for both oil and gas prices resulting in asset impairments and goodwill impairments. 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 10.5%. A further impairment of $3.9m was recorded at the end of 3Q20 as a result of the increased decommissioning costs in relation to Jacky and a change in phasing of spend on Dons. Both fields are no longer producing and have no remaining net book value resulting in the impairment booked.

The following assumptions were used at 1Q20 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
Oil	10.50%	$35/bbl	$45/bbl	$54/bbl	$63/bbl	$68/bbl
Gas	10.50%	24p/therm	33p/therm	39p/therm	42p/therm	43p/therm

16. BORROWINGS

	30 September 2021 US$'000	31 December 2020 US$'000
RBL facility	(625,000)	(720,000)
Senior notes	(625,000)	(500,000)
Long term bank fees	13,610	21,157
Long term senior notes fees	6,968	11,960
Total debt (excluding equity type subordinated debt)	(1,229,422)	(1,186,883)
Delek (equity type subordinated debt)	-	(250,000)
Total debt	(1,229,422)	(1,436,883)

RBL Facility

Following the refinancing program to amend and extend the RBL facility in July 2021, RBL availability is approximately $1.225 billion with a maturity to 2026. Loan fees of $13.6 million relating to the RBL have been capitalised and remain to be amortised. Fees of $18.1 million in relation to the previous RBL arrangement have been expensed during Q3.

Senior Notes

In July 2021, the Group completed the refinancing of its senior unsecured notes with the issuance of $625 million 9.375% senior unsecured notes due July 2026. Loan fees of $7 million relating to the senior notes have been capitalised and remain to be amortised. Fees of $37.9 million in relation to the previous senior notes have been expensed during Q3.

Subordinated Debt

On the 3rd August 2021 as part of the refinancing, the Group repaid the $250 million Subordinated Shareholder Loan to Delek Group Ltd.

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 covenants in the RBL are:

-The Parent shall ensure that as at the end of each Relevant Period (starting with the Relevant Period ending on 30 November 2021) the ratio of Net Debt to EBITDAX shall be less than 3.5:1

- 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

There are no ongoing maintenance or financial covenant tests associated with the $625m unsecured notes.

Security provided against the facilities

The RBL facilities are secured by the assets of the guarantor members of the Ithaca Group. Such security includes share pledges, floating charges and/or debentures.

17. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Non-current interest bearing loans and borrowings (note 16)	2021 US$'000
At 1 January 2021	(1,436,883)
Cash flows	220,000
Bank fee amortisation	(12,539)
At 30 September 2021	(1,229,422)

18. TRADE AND OTHER PAYABLES

	30 September 2021 US$'000	31 December 2020 US$'000
Trade payables	(209,101)	(110,107)
Current tax payable	-	(9,964)
Accruals and deferred income	(194,004)	(151,134)
	(403,105)	(271,205)

19. DECOMMISSIONING LIABILITIES

	30 September 2021 US$'000	31 December 2020 US$'000
Balance, beginning of period	(1,416,236)	(1,194,607)
Accretion	(31,882)	(47,844)
Revision to estimates	828	(203,506)
Decommissioning provision utilised	31,273	29,721
Balance, end of period	(1,416,017)	(1,416,236)

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 discount rate of 3.0 percent (31 December 2020: 3.0 percent) and an inflation rate of 2.0 percent (31 December 2020: 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.

20. OTHER LIABILITIES

Current	30 September 2021 US$'000	31 December 2020 US$'000
Lease liability	**(3,803)**	(6,080)

Non-Current	30 September 2021 US$'000	31 December 2020 US$'000
Lease liability	**(745)**	(912)
Petrofac deferred consideration	**(54,923)**	(52,914)
Balance, end of period	**(55,668)**	(53,826)

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.

	Total US$'000
At 1 January 2020	(13,139)
Interest	(587)
Payments	6,734
At 31 December 2020 and 1 January 2021	**(6,992)**
Interest	**(282)**
Revision	**(2,731)**
Payments	**5,457**
At 30 September 2021	**(4,548)**
Current	**(3,803)**
Non-current	**(745)**
	(4,548)

The lease liabilities at 30 September 2021 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	30 September 2021 US$'000	31 December 2020 US$'000
Balance outstanding	**-**	(8,250)

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. $8.25 million was released during Q1 21 in accordance with the Petrofac SPA.

Non-current	30 September 2021 US$'000	31 December 2020 US$'000
Balance outstanding	**(5,950)**	(5,950)

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

22. SHARE CAPITAL

Authorised share capital	Number of ordinary shares	Amount US$'000
At 30 September 2021 and 31 December 2020	117,007,658,167	1,170,077

(a) Issued

The issued share capital is as follows:

Issued	Number of common shares	Amount US$'000
At 30 September 2021 and 31 December 2020	64,097,908,167	640,979

(b) Share premium

	Amount US$'000
At 30 September 2021 and 31 December 2020	609,098

23. TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2021	2020	**2021**	2020
	US$000	US$000	**US$000**	US$000
Current tax				
Current Taxation - income statement	**-**	(240)	**3,815**	(384)
Total current tax credit/(charge)	**-**	(240)	**3,815**	(384)
Deferred tax				
Adjustment in respect of Prior Period	**-**	-	**(2,111)**	8,557
Group tax in Statement of Income	**(124,109)**	(7,223)	**(237,124)**	346,301
Group tax in Statement of Other Comprehensive Income	**127,447**	45,023	**237,125**	(72,167)
Total deferred tax credit	**3,338**	37,800	**(2,111)**	282,691
Total tax (charge)/credit	**(124,109)**	(7,463)	**(235,420)**	354,474

The tax on the group's profit/(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:

	Three months ended 30 September		Nine months ended 30 September	
	2021	2020	**2021**	2020
	US$000	US$000	**US$000**	US$000
Accounting profit/(loss) before tax	**249,597**	20,664	**501,157**	(1,111,753)
At tax rate of 40% (2020: 40%)	**(99,839)**	(8,266)	**(200,463)**	444,701
Non-deductible expense	**(28,568)**	23	**(49,923)**	(122,627)
Financing costs not allowed for SCT	**(1,108)**	(419)	**(1,975)**	(1,383)
Ring Fence Expenditure Supplement	**2,807**		**9,108**	21,887
Deferred tax effect of investment allowance	**2,735**	1,473	**6,563**	3,961
Over provided in prior years	**-**	(240)	**1,704**	8,414
Unrecognised tax losses	**(136)**	(34)	**(434)**	(478)
Total tax (charge)/credit recorded in the consolidated statement of income	**(124,109)**	(7,463)	**(235,420)**	354,474

The Company is UK tax resident. The effective rate of tax applicable for UK ring fence oil and gas activities in 2021 was 40% (2020: 40%) consisting of a corporation tax rate of 30% and the supplementary charge of 10%.

Deferred income tax relates to the following:	**30 September 2021**	31 December 2020
	US$000	US$000
Deferred tax liability	**(449,339)**	(509,794)
Deferred tax asset	**829,343**	891,908
Net deferred tax asset	**380,004**	382,114

The gross movement on the deferred income tax account is as follows:	**30 September 2021**	31 December 2020
	US$000	US$000
At 1 January	**382,114**	234,128
Income statement (charge)/credit	**(239,235)**	159,354
Other comprehensive income credit/(charge)	**237,125**	(11,368)
At 30 September 2021	**380,004**	382,114

Deferred tax liability	**Other US$000**	**Accelerated tax depr'n US$000**	**Total US$000**
At 1 January 2021	(26,941)	536,735	509,794
Prior year adjustment	-	15,813	15,813
Origination and reversal of temporary differences	(109,113)	32,845	(76,268)
At 30 September 2021	**(136,054)**	**585,393**	**449,339**

Deferred tax assets	**Tax Losses US$000**	**Abandonment provision US$000**	**Total US$000**
At 1 January 2021	718,456	173,452	891,908
Prior year adjustment	13,702	-	13,702
Origination and reversal of temporary differences	(97,388)	21,121	(76,267)
At 30 September 2021	**634,770**	**194,573**	**829,343**

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 $1,587 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 $55 million, which are included in the calculation of accelerated tax depreciation above, giving a total pool of losses and allowances of $1,642 million.

Included within the deferred tax liability of $355.6 million is an asset of $86.8 million relating to Investment 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 30 September 2021 of $828.7 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

	30 September 2021	31 December 2020
	US$'000	US$'000
Capital commitments		
Capital commitments incurred jointly with other ventures (Ithaca's share)	**109,190**	65,519

25. FINANCIAL INSTRUMENTS

To estimate the 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 30 September 2021:

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total Fair Value US$'000
Contingent consideration (note 21)	-	-	(5,950)	(5,950)
Derivative financial instrument asset	-	1,298	-	1,298
Derivative financial instrument liability	-	(582,541)	-	(582,541)

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

	Three months ended 30 September		Nine months ended 30 September	
	2021 **US$000**	2020 US$000	**2021** **US$000**	2020 US$000
Revaluation of forex forward contracts	**(4,503)**	7,694	**(6,612)**	(1,914)
Revaluation of commodity hedges	**884**	(1,672)	**997**	(2,788)
	(3,619)	6,022	**(5,615)**	(4,702)
Realised gain/(loss) on forex contracts	**2,159**	(998)	**6,109**	(2,006)
Realised gain on commodity hedges	-	-	-	3,463
	2,159	(998)	**6,109**	1,457
Total gain/(loss) on financial instruments	**(1,460)**	5,024	**494**	(3,245)

Cash flow hedge

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

	Three months ended 30 September		Nine months ended 30 September	
Cash flow hedges	**2021** **US$000**	2020 US$000	**2021** **US$000**	2020 US$000
Revaluation of derivative contracts	**(292,719)**	(112,558)	**(501,362)**	26,007
Realised (loss)/gain on derivative contracts	**(102,209)**	69,307	**(206,884)**	404,004
Amounts recycled to revenue	**66,104**	(85,981)	**79,505**	(302,914)
Amounts recycled to finance costs	**10,209**	16,674	**35,928**	53,320
Total (loss)/gain	**(318,615)**	(112,558)	**(592,813)**	180,417

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 and gas prices are 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 period end:

Derivative	Term	Volume		Average price
Oil swaps	Oct 21 - Dec 23	5,977,985	bbls	$50/bbl
Oil puts	Oct 21 - Dec 22	3,415,500	bbls	$61/bbl
Oil Collars	Oct 21 - Dec 22	2,511,250	bbls	$56/bbl floor - $75/bbl ceiling
Gas swaps	Oct 21 - Dec 23	222,300,000	therms	50p/therm
Gas collars	Jan 22 - Dec 22	73,000,000	therms	60p/therm floor - 94p/therm ceiling
Gas puts	Oct 21 - Dec 22	87,100,000	therms	45p/therm

25. FINANCIAL INSTRUMENTS (CONTINUED)

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 - Dec 21	$100 million	1.43%
Interest rate swap	Jan 20 - Dec 21	$100 million	1.45%
Interest rate swap	Mar 21 - Dec 23	$50 million	0.22%

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 30 September 2021 the Group had an average of £27.5 million per quarter hedged at an average forward rate of $1.3 : £1 for the period October to December 2021.

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 Cook is sold to Shell Trading International Ltd, Stella and Vorlich to ENI, Captain, Alba and Pierce to BP Oil International. Stella and Vorlich gas is sold to BP Gas Marketing and Gazprom Marketing and Trading.

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 30 September 2021, substantially all accounts receivables are current, being defined as less than 90 days. The Group has no allowance for doubtful accounts as at 30 September 2021 (31 December 2020: $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 30 September 2021, exposure is $1.3 million (31 December 2020: $31.7 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 30 September 2021, 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	(403,105)	-
Derivatives	(365,871)	(216,670)
Other long term liabilities	-	(55,668)
Borrowings	-	(1,360,947)
	(768,976)	(1,633,285)

26. DERIVATIVE FINANCIAL INSTRUMENTS

	30 September 2021 US$'000	31 December 2020 US$'000
Oil swaps - cash flow hedge	**(137,740)**	(77,081)
Oil puts - cash flow hedge	**(14,293)**	10,805
Oil calls - cash flow hedge	**(27,804)**	-
Gas swaps - cash flow hedge	**(343,272)**	(1,420)
Gas puts - cash flow hedge	**(8,981)**	(5,401)
Gas calls - cash flow hedge	**(49,550)**	-
Interest rate swaps	**(689)**	(7,877)
FX forwards	**1,086**	6,820
	(581,243)	(74,154)

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 30 September 2021, the classification of financial instruments and the carrying amounts reported on the balance sheet and their estimated fair values are as follows:

	30 September 2021 US$'000		31 December 2020 US$'000	
Classification	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents (Held for trading)	**4,483**	**4,483**	1,203	1,203
Derivative financial instruments (Held for trading)	**1,298**	**1,298**	31,748	31,748
Deposits	**5,499**	**5,499**	10,213	10,213
Bank debt (Loans)	**(1,229,422)**	**(1,229,422)**	(1,186,883)	(1,186,883)
Contingent consideration	**(5,950)**	**(5,950)**	(14,200)	(14,200)
Derivative financial instruments (Held for trading)	**(582,542)**	**(582,542)**	(105,903)	(105,903)
Other long term liabilities	**(55,668)**	**(55,668)**	(53,826)	(53,826)

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 30 September 2021	2020
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 (North Sea) plc	Scotland	**100%**	100%
Ithaca Oil and Gas Limited*	England and Wales	**100%**	100%
Ithaca Petroleum Limited	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 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 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 30 September 2021 and 31 December 2020:

Loans due to related parties	**2021 US$'000**	2020 US$'000
Delek Group Limited	-	(250,000)

29. SUBSEQUENT EVENTS

Marubeni

The Group has signed a Sale and Purchase Agreement for the acquisition of Marubeni Oil & Gas UK Limited for a consideration of $140 million ($70m deferred until 2025). The transaction has an effective date of 1 January 2021 and is subject to normal completion activities including gaining consent from the UK Oil and Gas Authority.