Ithaca Energy Limited

Year ending 31 December 2020

FINANCIAL STATEMENTS

Directors' Report for the year ended 31 December 2020

The Directors present their report and the audited financial statements of Ithaca Energy Limited ("the Group") for the year ended 31 December 2020.

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"). During 2020 the industry has been impacted by both COVIID-19 and significant volatility in the oil price over the course of the year. The Group's wider 2020 capital expenditure plans were revisited as part of proactively preserving the liquidity and cash flow resilience of the business. Despite the sharp reduction in prevailing commodity prices, the Group still generated significant free cash flow in 2020 as a result of production results, a competitive cost base and a strong commodity hedging position.

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 2021 strategic focus is centred on execution of the 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 $401.8 million (2019: $15 million) after recognising a post tax impairment of $491.6 million (2019: $64.1 million profit). A profit of $17.1 million (2019: $2.6 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 paid a dividend during the year of $120 million (2019: $ nil).

Directors

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

B Dunnett (appointed 24 August 2020)
G Forbes (resigned 31 January 2021)
L Thomas (resigned 24 August 2020)
J Bartfeld (resigned 31 January 2021)
G Myerson
D Crawford (appointed 31 January 2021)
N Sarne (resigned 31 January 2021)
T Polikar (appointed 31 January 2021)

Company Auditors

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

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 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

"David Crawford"
Director

22 March 2021

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

We have audited the financial statements of Ithaca Energy Limited and its subsidiaries (the "group") for the year ended 31 December 2020 which comprise the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 29, 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 2020 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. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's ability to continue as a going concern for a period to 31 December 2021 from when the financial statements are authorised for issue.

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

Other information

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

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

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

We have nothing to report in this regard.

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.

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

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

Our approach was as follows;

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS and the Companies (Jersey) Law 1991) and the relevant direct and indirect tax compliance regulations in the United Kingdom. In addition, the group has to comply with laws and regulations relating to its operations, health and safety regulations, employee regulations, GDPR and anti-bribery and corruption legislation.

- We understood how Ithaca Energy Limited is complying with those frameworks by making enquiries of management to understand how the Group maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation. We observed the culture of open-ness within the group, supported by the Code of Conduct, Staff Handbook, Whistle-blowing hotline and clarity of roles and responsibilities for all employees within the business. Given the size of the business we also observed how close those charged with governance were to the day-to-day running of the operations of the business providing a further fraud deterrent.

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue to be a fraud risk.

-Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved testing journals identified by specific risk criteria. We also focused on the judgemental aspects of the audit, challenging assumptions made, models used in determining estimates and sought to obtain corroborative or contradictory evidence to support and/or challenge the estimates applied. In terms of revenue recognition, we corroborated a sample of transactions back to underlying documentation such as bank statements and lifting confirmations and ensured appropriate authorisation and recording of revenue entries into the general ledger. We held enquiries with the legal department to assess whether any non-compliance of laws and regulations, or fraud have been identified.

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
22 March 2021

Consolidated Statement of Income

For the year ended 31 December 2020

Continuing operations

	Note	**2020** **US$'000**	2019 US$'000
Revenue	*5*	**1,176,125**	582,239
Operating costs		**(418,981)**	(198,713)
Royalties	*6*	**(1,999)**	(5,749)
Movement in oil and gas inventory		**(2,300)**	2,124
Depletion, depreciation and amortisation	*13*	**(372,831)**	(235,177)
Cost of sales		**(796,111)**	(437,515)
Gross Profit		**380,014**	144,724
Exploration and evaluation expenses	*12*	**(1,450)**	(195)
Reduction in deferred consideration		**4,484**	-
(Loss)/Gain on financial instruments	*26*	**(486)**	500
Impairment of oil & gas assets	*15*	**(681,588)**	(106,812)
Administrative expenses	*7*	**(36,804)**	(22,126)
Foreign exchange		**8,232**	985
Finance costs	*8*	**(233,220)**	(156,089)
Loss Before Tax		**(560,818)**	(139,013)
Taxation	*24*	**158,970**	124,008
Loss After Tax		**(401,848)**	(15,004)

The accompanying notes on pages 10 to 26 are an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	2020 US$'000	2019 US$'000
Loss for the period		**(401,848)**	(15,004)
Items that may be reclassified to profit and loss			
Fair value gains on cash flow hedges	*26*	**28,420**	4,325
Deferred tax on cash flow hedges	*24*	**(11,368)**	(1,730)
Other comprehensive income		**17,052**	2,595
Total comprehensive expense		**(384,796)**	(12,409)

The accompanying notes on pages 10 to 26 are an integral part of the financial statements.

Consolidated Statement of Financial Position
as at 31 December 2020

	Note	2020 US$'000	2019 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**1,203**	15,059
Accounts receivable	*9*	**109,213**	158,149
Deposits, prepaid expenses and other	*10*	**10,213**	8,660
Inventory	*11*	**95,212**	100,096
Derivative financial instruments	*27*	**29,042**	59,912
		244,883	341,876
Non current assets			
Long-term receivable	*9*	**244,830**	200,986
Long-term inventory	*11*	**2,898**	3,933
Exploration and evaluation assets	*12*	**70,589**	47,428
Property, plant & equipment	*13*	**2,583,713**	3,196,228
Deferred tax assets	*24*	**382,114**	234,128
Derivative financial instruments	*27*	**2,706**	41,044
Goodwill	*14*	**722,075**	928,804
		4,008,925	4,652,551
Total assets		**4,253,808**	4,994,427
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	*19*	**(259,725)**	(368,462)
Other current liabilities	*21*	**(6,080)**	(5,942)
Contingent consideration	*22*	**(8,250)**	(8,250)
Derivative financial instruments	*27*	**(82,266)**	(48,293)
		(356,321)	(430,947)
Non current liabilities			
Borrowings	*17*	**(1,436,883)**	(1,763,984)
Decommissioning liabilities	*20*	**(1,416,236)**	(1,194,607)
Other long term liabilities	*21*	**(53,826)**	(130,986)
Derivative financial instruments	*27*	**(23,636)**	(4,551)
Contingent consideration	*22*	**(5,950)**	(3,600)
		(2,936,531)	(3,097,728)
Net Assets		**960,956**	1,465,752
Shareholders' equity			
Share capital	*23*	**640,979**	640,979
Share premium	*23*	**609,098**	609,098
Cash flow hedge reserve		**44,294**	27,242
Retained earnings		**(333,415)**	188,433
Total equity		**960,956**	1,465,752

The financial statements were approved by the Board of Directors on 22 March 2021 and signed on its behalf by:

"David Crawford"
Director

The accompanying notes on pages 10 to 26 are an integral part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Share Capital US$'000	Share Premium US$'000	Cash Flow US$'000	Retained Earnings US$'000	Total US$'000
Balance, 1 January 2019	635,077	-	24,647	203,437	863,161
Share capital issued (note 23)	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**
Balance, 1 January 2020	**640,979**	**609,098**	**27,242**	**188,433**	**1,465,752**
Loss for the year	-	-	-	**(401,848)**	**(401,848)**
Other comprehensive income	-	-	**17,052**	-	**17,052**
Dividends paid	-	-	-	**(120,000)**	**(120,000)**
Balance, 31 December 2020	**640,979**	**609,098**	**44,294**	**(333,415)**	**960,956**

The accompanying notes on pages 10 to 26 are an integral part of the financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 December 2020

	Note	2020 US$'000	2019 US$'000
CASH PROVIDED BY /(USED IN):			
Operating activities			
Loss Before Tax		**(560,818)**	(139,012)
Adjustments for:			
Depletion, depreciation and amortisation	*13*	**372,831**	235,177
Exploration and evaluation expenses	*12*	**1,450**	195
Impairment of oil & gas assets	*15*	**681,588**	106,812
Loan fee amortisation	*8*	**9,457**	14,751
Revaluation of financial instruments		**(442)**	(9,931)
Reduction in deferred consideration		**(4,484)**	-
Hedging resets		**155,044**	-
Accretion	*8*	**43,397**	20,378
Bank interest & charges		**111,847**	76,640
Financial instrument put premiums		**68,557**	44,320
Cashflow from operations		**878,427**	349,330
Changes in inventory, receivables and payables relating to operating activities		**4,055**	(14,678)
Corporation tax paid		**(65,155)**	-
Net cash from operating activities		**817,327**	334,652
Investing activities			
Capital expenditure		**(108,811)**	(196,486)
Cost of acquisition	*16*	**-**	(1,726,929)
Contingent consideration payment		**(56,900)**	(10,000)
Decommissioning expenditure		**(25,516)**	(8,706)
Changes in receivables and payables relating to investing activities		**(33,250)**	32,602
Net cash used in investing activities		**(224,477)**	(1,909,519)
Financing activities			
Receipt from issue of equity to Delek		**-**	615,000
Bond issue		**-**	500,000
Loan (repayment)/drawdown		**(335,000)**	598,500
Bank interest & charges		**(111,847)**	(76,641)
Financial instrument put premiums		**(68,557)**	(44,320)
Dividend payment		**(120,000)**	-
Changes in receivables and payables relating to financing activities		**28,986**	(21,489)
Net cash from financing activities		**(606,418)**	1,571,050
Currency translation differences relating to cash		**(288)**	1,398
Decrease in cash & cash equivalents		**(13,856)**	(2,419)
Cash and cash equivalents, beginning of period		**15,059**	17,478
Cash and cash equivalents, end of period		**1,203**	15,059

The accompanying notes on pages 10 to 26 are an integral part of the financial statements.

Notes to the Financial Statements

1. NATURE OF OPERATIONS

Ithaca Energy Limited (the "Group" or "Ithaca"), was 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 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.

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

The directors consider the preparation of the financial statements on a going concern basis to be appropriate. This is due to the following key factors:

- Significant upturn in the commodity markets in 2021 compared with 2020,
- RBL liquidity headroom of almost $500m - $570m drawn as at March 2021; and
- A material hedge position which reduces exposure to price uncertainty – over 75% of total 2021 production is hedged and over 25% in 2022

The directors closely monitor the funding position of the group throughout the year including monitoring continued compliance with covenants as described in note 17, and available facilities to ensure sufficient headroom to fund operations.

Owing to the on-going fluctuations in commodity demand and price volatility, management prepare sensitivity analyses to allow proactive management of business risks including liquidity risk, including the following separate scenarios covering the period through to 31 December 2022:

- Reduction of oil price to $35/bbl and gas 25p/therm; and
- 10% decrease in production

Based on their assessment of the group's financial position to the period 31 December 2022, 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 29. 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.

Notes to the Financial Statements (continued)

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, 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.

Notes to the Financial Statements (continued)

Financial instruments (continued)

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 26 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.

Notes to the Financial Statements (continued)

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.

Notes to the Financial Statements (continued)

Leases (continued)

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 long term liabilities. (Notes 8 and 21)

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 2020. Where the changes affect the group, the relevant application and disclosure has been made during the year to 31 December 2020 for new/amended IFRSs during the year are as detailed below:

- 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 management are reviewing all hedging documentation to ensure a smooth transition with minimal exposure anticipated with the change. The assumptions made to arrive at this conclusion are due to our hedging portfolio being heavily commodity based with only a small number of interest hedges. For full disclosure of our Financial Instruments please refer to notes 26 and 27.

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:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

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.

Notes to the Financial Statements (continued)

Significant accounting judgements and estimation uncertainties (continued)

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. For further details regarding the estimate value, inputs and assumptions please refer to note 16.

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 20.

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 24.

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

	2020 **US$'000**	2019 US$'000
Oil sales	**584,960**	334,481
Gas sales	**172,152**	126,710
NGL sales	**36,219**	28,858
Other income	**9,638**	1,659
Realised gains on oil derivative contracts	**257,623**	17,051
Realised gains on gas derivative contracts	**115,533**	73,480
	1,176,125	582,239

6. ROYALTIES

	2020 **US$'000**	2019 US$'000
Royalties	**(1,999)**	(5,749)

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

7. ADMINISTRATIVE EXPENSES

	2020 **US$'000**	2019 US$'000
General & administrative	**(17,504)**	(5,070)
Non-recurring costs	**(19,300)**	(17,056)
	(36,804)	(22,126)

Non-recurring costs incurred in 2020 relate to the redundancy costs post an Employee Voluntary Redundancy programme. The prior year non-recurring fees related to costs associated with the acquisition of Chevron North Sea Limited which completed in 4Q 2019.

Employee benefit expense	**2020** **US$'000**	2019 US$'000
Wages and salaries	**(46,992)**	(9,666)
Social security costs	**(32,445)**	(7,892)
Pension costs	**(14,361)**	(1,606)
	(93,798)	(19,164)

8. FINANCE COSTS & INTEREST INCOME

	2020 **US$'000**	2019 US$'000
Bank interest and charges	**(55,133)**	(41,856)
Senior notes interest	**(47,131)**	(35,658)
Loan fee amortisation	**(9,457)**	(14,751)
Accretion	**(43,397)**	(20,378)
Put premiums	**(68,557)**	(44,320)
Realised losses on interest derivative contracts	**(5,277)**	-
Interest income	**39**	1,897
Other	**(4,307)**	(1,023)
	(233,220)	(156,089)

9. ACCOUNTS RECEIVABLE

Current	2020 US$'000	2019 US$'000
Trade debtors	92,776	97,840
Accrued income	16,437	60,309
	109,213	158,149

The Group regularly monitors all customer receivable balances outstanding in excess of 90 days for ECLs (Expected Credit Losses). As at 31 December 2020, 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 2020 (31 December 2019: $Nil).

Non-current	2020 US$'000	2019 US$'000
Decommissioning reimbursement	244,830	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 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

Current	2020 US$'000	2019 US$'000
Prepayments	6,947	6,466
Decommissioning securities	3,266	1,984
Other	-	210
	10,213	8,660

11. INVENTORY

Current	2020 US$'000	2019 US$'000
Hydrocarbon inventory	53,696	56,774
Materials inventory	41,516	43,322
	95,212	100,096

Non-current	2020 US$'000	2019 US$'000
Hydrocarbon inventory	2,898	3,933

12. EXPLORATION AND EVALUATION ASSETS

	US$'000
At 1 January 2019	38,746
Additions	8,877
Write offs/relinquishments	(195)
At 31 December 2019 and 1 January 2020	47,428
Additions	19,261
Acquisitions	5,350
Write offs/relinquishments	(1,450)
At 31 December 2020	**70,589**

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 $1.5 million being expensed in the period to 31 December 2020 (2019: $0.2 million).

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 2019	32,169	2,931,978	3,705	2,967,852
Acquisitions [(b)]	13,139	2,145,966	10,064	2,169,169
Additions	-	179,785	8,648	188,433
Derecognition on IFRS 16 [(a)]	(32,169)	-	-	(32,169)
At 31 December 2019 and 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	**13,139**	**5,496,465**	**18,856**	**5,528,460**
DD&A and Impairment				
At 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 [(a)]	6,969	-	-	6,969
Impairment (note 15)	-	(106,812)	-	(106,812)
At 31 December and 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	**(6,257)**	**(2,930,215)**	**(8,275)**	**(2,944,747)**
NBV at 31 December and 1 January 2019	25,600	1,179,629	586	1,205,815
NBV at 31 December and 1 January 2020	13,139	3,165,353	17,736	3,196,228
NBV at 31 December 2020	**6,882**	**2,566,250**	**10,581**	**2,583,713**

(a) The right of use asset at 1 January 2019 related to the Pierce FPSO acquired as part of the Summit acquisition. Please see note 21 for further details of the derecognition of the right of use asset and corresponding lease.

(b) The acquisition relates to the Captain FPSO and Rubislaw asset lease acquired as part of the CNSL acquisition in 2019. (Note 16)

14. GOODWILL

	2020 US$'000	2019 US$'000
Balance at 1 January	928,804	123,510
Additions	-	805,294
Impairment	(206,729)	-
Balance at 31 December	722,075	928,804

Goodwill of $805.3 million was recognised in 2019 on the acquisition of Chevron North Sea Limited (see note 16). 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 $63.0 million would have been recognised. The remaining $123.5 million balance of goodwill at 31 December 2019 relates to the 2014 Summit acquisition.

Goodwill was tested for impairment due to the fall in commodity prices at the end of Q1 2020 and was consequently impaired by $206.7 million - see note 15 below for more detail.

15. IMPAIRMENT

	2020 US$'000	2019 US$'000
D&P Assets	**(474,859)**	(106,812)
Goodwill (note 14)	**(206,729)**	-
North Sea oil and gas assets	**(681,588)**	(106,812)

During 2020, the Group recorded a $475 million pre-tax impairment charge (2019: $106.8 million) relating to oil and gas assets.

An impairment review was carried out at the end of 1Q and was driven by the lower forward curve for both oil and gas prices resulting in pre-tax asset impairments of $980.3 million. 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%.

The following assumptions were used at 1Q 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	10.5%	$35/bbl	$45/bbl	$54/bbl	$63/bbl	$68/bbl
Gas	10.5%	24p/therm	33p/therm	39p/therm	42p/therm	43p/therm

A further impairment of $3.9m was recorded at the end of 3Q as a result of the increased decommissioning costs in relation to Jacky and a change in phasing of decommissioning spend on Dons. Both fields are no longer producing and have no remaining net book value resulting in the impairment during the third quarter.

At 31 December 2020, impairment reversals of $531.2m have been made. This has been driven by the stronger short term forward curve for both oil and gas prices than earlier in the year. 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%. This has been offset by an impairment charge of $21.8m primarily due to increased decommissioning provisions for assets that have already creased production.

The following assumptions were used at 4Q 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%	$52/bbl	$57/bbl	$61/bbl	$65/bbl	$68/bbl
Gas	9.75%	47p/therm	44/therm	43p/therm	43p/therm	44p/therm

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 recoverable amount of the operating segment, being North Sea D&P assets, is $4,827 million.

A 10% reduction in the price deck would result in an additional post tax impairment of $48.5 million to PP&E and a $180.5 million post tax reduction to the impairment reversals booked during the final quarter. This additional impairment and lower reversals 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 $72m. A 10% increase in the price deck would not change the impairment reversals booked and would only result in a post tax impairment reduction of $2.2 million.

16. 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 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

16. BUSINESS COMBINATIONS (CONTINUED)

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

There was no difference between the fair value of the trade and other receivables as stated above and the contractual amount receivable.

If the combination had taken place at the beginning of 2019, 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.

There was no triggers to indicate that the fair values of the assets acquired in 2019 required to be reassessed within the 12 months period post acquisition

17. BORROWINGS

Non-current	**2020 US$'000**	2019 US$'000
RBL facility	**(720,000)**	(1,055,000)
Senior notes	**(500,000)**	(500,000)
Long term bank fees	**21,157**	26,691
Long term senior notes fees	**11,960**	14,325
Total debt (excluding equity type subordinated debt)	**(1,186,883)**	(1,513,984)
Delek (equity type subordinated debt)	**(250,000)**	(250,000)
Total debt	**(1,436,883)**	(1,763,984)

Refinancing

RBL Facility

Following the redetermination in November 2020, RBL availability is approximately $1.1 billion with a maturity to April 2024. The effective interest rate of the facility is 4.96%. Loan fees of $22.6 million relating to the RBL have been capitalised and remain to be amortised.

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 $11.9 million relating to the senior notes have been capitalised and remain to be amortised.

Subordinated Debt

The Company has a $250 million Subordinated Shareholder Loan (which ranks with equity) with 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.

17. BORROWINGS (CONTINUED)

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 notes nor the $250m subordinated shareholder loan.

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

18. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Non-current interest bearing loans and borrowings (note 17)

	2020 **US$'000**
At 1 January 2020	**(1,763,984)**
Cash flows	**335,000**
Bank fee amortisation	**(7,899)**
	(1,436,883)

19. TRADE AND OTHER PAYABLES

	2020 **US$'000**	2019 US$'000
Trade payables	**(98,627)**	(148,366)
Current tax payable	**(9,964)**	(74,414)
Accruals and deferred income	**(151,134)**	(145,682)
	(259,725)	(368,462)

20. DECOMMISSIONING LIABILITIES

	2020 **US$'000**	2019 US$'000
Balance, beginning of period	**(1,194,607)**	(245,298)
Business combination additions	**-**	(940,728)
Accretion	**(47,844)**	(16,276)
Revision to estimates	**(203,506)**	(1,010)
Decommissioning provision utilised	**29,721**	8,705
Balance, end of period	**(1,416,236)**	(1,194,607)

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 2019: 4.0 percent) and an inflation rate of 2.0 percent (31 December 2019: 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.

Revisions to the estimate made during the year are in relation to the discount rate, annual review of cost estimates and spend phasing.

One of the main drivers of sensitivity for provisioning purposes is the discount rate. Increasing the discount rate 1% results in a $139 million decrease to the decommissioning provision, as such a decrease in the rate by 1% would increase the provision by this amount.

Included in the acquired decommissioning liability of $940.7 million in 2019 was $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 16. The equivalent liability at 31 December 2020 is $330.5 million.

21. OTHER LONG TERM LIABILITIES

Current	**2020** **US$'000**	2019 US$'000
Lease liability	**(6,080)**	(5,942)

Non-Current	**2020** **US$'000**	2019 US$'000
Lease liability	**(912)**	(7,197)
Decommissioning incentive contract	**-**	(12,814)
Petrofac deferred consideration	**(52,914)**	(110,975)
Balance, end of period	**(53,826)**	(130,986)

21. OTHER LONG TERM LIABILITIES (CONTINUED)

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 2022 and is discounted to reflect the time value of money. Interest is payable at 5% on $15 million of the consideration. An accelerated payment of $57m was made in 2Q in exchange for a discount.

Lease liability

	Total US$'000
At 1 January 2019	**(27,140)**
Derecognition of Pierce FPSO lease	**25,376**
Additions	**(13,139)**
Interest	**(836)**
Payments	**2,600**
At 31 December 2019 and 1 January 2020	**(13,139)**
Interest	**(587)**
Payments	**6,734**
At 31 December 2020	**(6,992)**
Current	**(6,080)**
Non-current	**(912)**
	(6,992)

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 2020 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%.

22. CONTINGENT CONSIDERATION

Current	2020 US$'000	2019 US$'000
Balance outstanding	**(8,250)**	(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. At 31 December 2020, $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	2020 US$'000	2019 US$'000
Balance outstanding	**(5,950)**	(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. The remainder of the balance relates to Yeoman.

23. SHARE CAPITAL

Authorised share capital	Number of common shares	Amount US$'000
At 31 December 2019 and 31 December 2020	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 2019 and 31 December 2020	64,097,908,167	640,979

(b) Share premium

	Amount US$'000
At 31 December 2019 and 31 December 2020	609,098

24. TAXATION

	2020 US$000	2019 US$000
Current tax		
Current tax charge	**(384)**	(22,921)
Total current tax charge	**(384)**	(22,921)
Deferred tax		
Group tax in Statement of Income	**159,354**	146,929
Group tax in Statement of Other Comprehensive Income	**(11,368)**	(1,730)
Total deferred tax credit	**147,986**	145,199
Total Tax Charge	**158,970**	124,008

Deferred tax	**2020 US$000**	2019 US$000
Deferred tax		
Relating to the origination and reversal of temporary differences	**134,340**	106,364
Adjustment in respect of prior periods	**13,646**	38,835
Total tax credit	**147,986**	145,199

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:

	2020 US$000	2019 US$000
Accounting loss before tax	**560,818**	139,012
At tax rate of 40% (2019: 40%)	**224,327**	55,604
Non-deductible expense	**(27,769)**	(33,216)
Impairment of goodwill	**(82,599)**	**-**
Financing costs not allowed for SCT	**(1,717)**	(2,869)
Ring Fence Expenditure Supplement	**28,894**	58,700
Deferred tax effect of investment allowance	**5,783**	8,215
Over provided in prior years	**13,263**	38,835
Unrecognised tax losses	**(1,212)**	(1,261)
Total tax credit recorded in the consolidated statement of income	**158,970**	124,008

The Company is UK tax resident. The effective rate of tax applicable for UK ring fence oil and gas activities in 2020 was 40% (2019: 40%) consisting of a corporation tax rate of 30% and the supplementary charge of 10%.

Deferred income tax at 31 December 2020 relates to the following:

	2020 US$000	2019 US$000
Deferred tax liability	**(509,794)**	(800,031)
Deferred tax asset	**891,908**	1,034,159
Net deferred tax asset	**382,114**	234,128

24. TAXATION (CONTINUED)

The gross movement on the deferred income tax account is as follows:	2020 US$000	2019 US$000
At 1 January	234,128	580,335
Income statement credit	158,970	146,929
Other comprehensive income charge	(11,368)	(1,730)
Business combination	-	(491,406)
At 31 December	382,114	234,128

Deferred tax liability	Other US$000	Accelerated tax depr'n US$000	Total US$000
At 1 January 2020	(21,265)	(778,766)	(800,031)
Prior year adjustment	(700)	12,717	12,017
Origination and reversal of temporary differences	48,906	229,314	278,220
At 31 December 2020	**26,941**	**(536,735)**	**(509,794)**

Deferred tax assets	Tax Losses US$000	Abandonment provision US$000	Total US$000
At 1 January 2020	938,638	95,521	1,034,159
Prior year adjustment	1,629	-	1,629
Origination and reversal of temporary differences	(221,811)	77,931	(143,880)
At 31 December 2020	**718,456**	**173,452**	

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 $1,796 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 $65 million, which are included in the calculation of accelerated tax depreciation above, giving a total pool of losses and allowances of $1,861 million.

Included within the deferred tax liability of $509.8 million is an asset of $79.4 million relating to Investment Allowance (previously Small Field Allowance), the majority of which is activated by income so can be utilised in future periods against profits subject to the Supplementary Charge to Tax.

The carrying value of the net deferred tax asset at 31 December 2020 of $382 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 see note 15.

25. COMMITMENTS

	2020 US$'000	2019 US$'000
Capital commitments		
Capital commitments incurred jointly with other venturers (Ithaca's share)	65,519	105,157

26. 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.

26. FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the Group's material financial instruments measured at fair value for each hierarchy level as of 31 December 2020:

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total Fair Value US$'000
Contingent consideration (note 22)	-	-	(14,200)	**(14,200)**
Derivative financial instrument asset	-	31,748	-	**31,748**
Derivative financial instrument liability	-	(105,903)	-	**(105,903)**

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

	2020 US$'000	2019 US$'000
Revaluation of forex forward contracts	**3,504**	3,329
Revaluation of commodity hedges	**(3,696)**	(1,505)
	(192)	1,824
Realised loss on forex contracts	**(2,300)**	(977)
Realised gain/(loss) on commodity hedges	**2,006**	(273)
	(294)	(1,250)
Ineffectiveness on cash flow hedges	-	(74)
Total (loss)/gain on financial instruments	**(486)**	500

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	2020 US$'000	2019 US$'000
Revaluation of derivative contracts	**(125,989)**	14,322
Realised gain on derivative contracts	**453,731**	36,215
Amounts recycled to revenue	**(373,156)**	(90,532)
Amounts recycled to finance costs	**73,834**	44,320
Total gain	**28,420**	4,325

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 21 - Dec 21	1,927,750 bbls	$56/bbl
Oil swaps	Jan 21 - Dec 22	7,540,238 bbls	$40/bbl
Gas swaps	Jan 21 - Mar 23	305,250,000 therms	45p/therm
Gas puts	Jan 21 - Dec 22	191,500,000 therms	44p/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	Apr 19 - Apr 21	$300 million	2.86%
Interest rate swap	Oct 20 - Dec 21	$200 million	1.44%
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 31 December 2020 the Group had an average of £25 million per quarter hedged at an average forward rate of $1.3 : £1 for the period January to December 2021.

26. FINANCIAL INSTRUMENTS (CONTINUED)

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 and Dons 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 31 December 2020, 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 2020 (31 December 2019: $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 2020, exposure is $31.7 million (31 December 2019: $101 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 2020, 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	(250,860)	-
Derivatives	(82,266)	(23,636)
Other long term liabilities	-	(53,826)
Borrowings	-	(1,731,883)
	(333,126)	(1,809,345)

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 US$'000	2019 US$'000
Oil swaps - cash flow hedge	(77,081)	1,014
Oil puts - cash flow hedge	10,805	(1,402)
Gas swaps - cash flow hedge	(1,420)	47,884
Gas puts - cash flow hedge	(5,401)	1,700
Interest rate swaps	(7,877)	(4,725)
FX forwards	6,820	3,641
	(74,154)	48,112

28. 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 2020, the classification of financial instruments and the carrying amounts reported on the balance sheet and their estimated fair values are as follows:

	2020 US$'000		2019 US$'000	
Classification	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents (Held for trading)	1,203	1,203	15,059	15,059
Derivative financial instruments (Held for trading)	31,748	31,748	100,955	100,955
Deposits	10,213	10,213	8,660	8,660
Bank debt (Loans and Receivables)	(1,186,883)	(1,186,883)	(1,763,984)	(1,763,984)
Contingent consideration	(14,200)	(14,200)	(11,850)	(11,850)
Derivative financial instruments (Held for trading)	(105,903)	(105,903)	(52,844)	(52,844)
Other long term liabilities	(53,826)	(53,826)	(123,789)	(123,789)

29. 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	
		2020	2019
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 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 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 31 December 2020 and 31 December 2019:

	2020	2019
Loans due to related parties	**US$'000**	US$'000
Delek Group Limited	**(250,000)**	(250,000)

The following table provides remuneration provide to key management personnel for the years 31 December 2020 and 31 December 2019:

	2020	2019
Key management personnel	**US$'000**	US$'000
Aggregate remuneration	**6,436**	2,913
Company pension contributions	**302**	51
	6,738	2,964