Year ended 31 December 2020
Financial Results

ITHACA ENERGY

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HIGHLIGHTS

66 kboe/d 2020 Production	**$16/boe** 2020 Unit Opex	**$745M** 2020 EBITDAX	**$1.2Bn** 31 Dec 2020 Net Debt

- Strong operational performance with Vorlich development on production in November 2020, limited disruption arising from Covid-19 related restrictions
- Production of 66 thousand barrels of oil equivalent per day (“kboe/d”), 61% liquids, for the year
- Unit operating costs of $16/boe, down from $17/boe pro-forma 2019
- EBITDAX of $745 million including realised commodity hedging gains of $373 million
- During the year the company re-set the majority of its 2021/22 oil hedges, maintaining underlying hedge volumes with swaps at the prevailing forward curve – as a result, in addition to the EBITDAX of $745 million and non recurring costs of $21 million, $155 million of cash flow has been accelerated into 2020, resulting in Cashflow from Operations of $879 million
- 23 million barrels of oil equivalent (62% oil) hedged from the start of 2021 into 2023 at an average price floor of $44/bbl oil and 41p/therm gas
- Net debt at 31 December 2020 was $1.2 billion, down from $1.5 billion at year-end 2019
- Results include the $492 million post-tax non-cash impairment, primarily arising in Q1-2020 from lower commodity prices
- Year end independent reserves evaluation completed with proven and probable reserves (“2P”) and resources (“2C”) have increased to 298 million barrels of oil equivalent (“MMboe”)

SUMMARY STATEMENT OF INCOME

		2020	2019
Average Production	kboe/d	66	28.6
Average Realised Oil Price (1)	S/bbl	44	66
Revenue (2)	M$	1,143.6	584.4
Revenue (2)		**1,143.6**	**584.4**
Opex (3)	M$	(388.9)	(198.7)
G&A and Foreign Exchange	M$	(9.7)	(11.1)
Cashflow from Operations (4)	**M$**	**745.0**	**374.6**
Non-recurring Cash Costs	M$	(21.1)	(17.1)
DD&A & Impairment	M$	(1,054.4)	(342.0)
Finance Costs	M$	(233.2)	(156.1)
Other Non-Cash Costs	M$	2.9	1.6
Taxation	M$	159.0	124.0
Earnings	**M$**	**(401.8)**	**(15.0)**
Fair value gain/loss on hedges	M$	28.4	4.3
Taxation	M$	(11.4)	(1.7)
Total Comprehensive Expense/Income	**M$**	**(384.8)**	**(12.4)**

(1) Average realised oil price before hedging
(2) Revenue net of royalty costs, realised hedging gains/losses, inventory movements and tanker costs;
(3) Opex costs net of tariff income and excluding tanker costs
(4) Cashflow from Operations per cashflow statement includes $155m of Hedge resets which will not be recognized in the income statement until the original hedge matures

SUMMARY BALANCE SHEET

M$	**2020**	**2019**
Cash and Equivalents	1	15
Other Current Assets	243	327
PP&E	2,655	3,244
Goodwill	722	929
Deferred Tax Asset	382	234
Other Non-Current Assets	250	245
Total Assets	**4,253**	**4,994**
Current Liabilities	(356)	(431)
Borrowings	(1,437)	(1,764)
Asset Retirement Obligations	(1,416)	(1,195)
Other Non-Current Liabilities	(83)	(139)
Total Liabilities	**(3,288)**	**(3,529)**
Net Assets	**961**	**1,465**
Share Capital	1,250	1,250
Cashflow Hedge Reserve	44	27
Retained earnings	(333)	188
Shareholders' Equity	**961**	**1,465**

Note: All references to "pro-forma" in this Management Discussion and Analysis take into account the contribution of the Chevron North Sea Limited ("CNSL") assets from the 1 January 2019 acquisition effective date

CORPORATE STRATEGY

Ithaca Energy is an independent oil and gas company with production, development and exploration operations focused on the UK North Sea. The Company was founded in 2004 and has grown through a combination of acquisitions and new field developments.

The Company's portfolio consists of 17 producing field interests, which predominantly lie in the Central North Sea area of the UK Continental Shelf. The portfolio is heavily weighted towards operated assets, both in terms of production and reserves, providing significant control and flexibility over execution of the business' strategic and operational priorities. The Company has approximately 435 employees, of which around 200 normally work offshore on Ithaca-operated assets.

Ithaca Energy's corporate strategy is focused on establishing the Company as a leading North Sea operator, delivering sustainable growth, underpinned by operational excellence and financial discipline. Execution of this strategy is centred on delivering a balanced blend of investment programmes to sustain and enhance production through continued expansion of the Captain enhanced oil recovery ("EOR") programme, infill drilling on existing producing assets, satellite field developments and near-field exploration and appraisal activities.

The Company has total proven and probable reserves and resources of 298 million barrels of oil equivalent as of 31 December 2020 (as independently evaluated by Netherland Sewell & Associates Inc.)

Ithaca Energy is a wholly owned subsidiary of the Tel Aviv stock exchange listed Delek Group Limited (TASE: DLEKG, US ADR: DGRLY), Israel's leading integrated energy company.

2020 ENVIRONMENT & RESPONSE

Given the twin challenges that arose in March 2020 of Covid-19 and the dramatic fall in oil prices, the main focus of the Company's response to these issues has been centred on maintaining the health of the workforce and reducing the risk of spreading the virus, whilst at the same time preserving the operational and financial resilience of the business.

To minimise the risks to personnel presented by Covid-19 and simultaneously preserve operational continuity, the Company reduced the number of personnel on each of its operated offshore facilities in March 2020 to the minimum level required to safely maintain production and execute any critical maintenance work scopes.

The planned 2020 investment programme announced at the start of the year involved investments in a range of infill drilling and subsea satellite developments designed to enhance production and reserves over the coming years. Forecast expenditure totalled approximately $250 million, with around two-thirds associated with the Ithaca-operated Captain, Greater Stella Area ("GSA") and Alba assets.

As a consequence of managing the Covid-19 situation and proactively preserving the liquidity and cash flow resilience of the business in the face of significantly lower commodity prices, various activities in the 2020 capital programme were stopped and deferred until a more suitable time. This included the Alba infill drilling campaign that commenced at the end of 2019, the offshore works associated with preparation for the resumption of platform drilling on the Captain field later in 2020, the Abigail (formerly known as Hurricane) development programme and the Fotla exploration well. In total the steps taken across the portfolio amounted to a halving of the originally planned 2020 capital investments programme to $124 million.

The majority of the amended and deferred capital investment programmes activities did not materially impact 2020 production. In the short term the reductions in production arising from the deferred infill drilling activities were largely offset by shorter than originally forecast planned maintenance shutdowns on the platforms and infrastructure serving the producing asset portfolio. The reduced durations are a natural consequence of the measures taken to manage prevailing Covid-19 related personnel and equipment restrictions.

Although the majority of the capital investments relate to activities designed to increase production in 2021 and beyond, the completion of the Vorlich field development programme (34% working interest) has impacted the level of production during the year. Vorlich represents the third satellite field start-up in the Greater Stella Area ("GSA"). As previously reported, the impact of Covid-19 related restrictions on personnel and equipment resulted in the start-up of production being delayed until November 2020.

In addition to the 2020 capital expenditure reductions, the Company also achieved a 6% reduction in 2020 operating expenditure per boe of production. These savings were driven by both work programme changes, being the cancellation or deferral of activities that are not required to specifically maintain safe and stable production operations while Covid-19 restrictions are on-going, and the work being undertaken as part of transforming the business following the CNSL acquisition.

Various initiatives have been taken over the first half of the year to re-set the cost base of the enlarged business and

drive forward the underlying transformation principles of process simplification, operational efficiencies and value creation. As previously reported, the Company has reduced the size of the onshore workforce to better match the operational footprint of the business. A voluntary leavers programme was initiated in April 2020 and was completed during the third quarter of the year.

OPERATIONAL REVIEW

Production for the year to 31 December 2020 was 66 kboe/d, in line with the 63-68 kboe/d guidance issued in April 2020 when the potential impact of Covid-19 issues and restrictions were incorporated into the outlook

The production portfolio is weighted towards operated assets, which accounted for approximately 70% of production. This provides the Company with the control and flexibility over the operation of these fields, enabling a sharp focus to be maintained on optimising and maximising the value of production from the assets.

		2020 Full Year Production	2019 Pro-Forma Production
Daily Production	**kboe/d**	**66.4**	**74.7**
▪ *Liquids*	*kbbl/d*	*40.8*	*46.8*
▪ *Gas*	*kboe/d*	*25.6*	*28.0*
Total Production	**MMboe**	**24.3**	**27.3**

Daily Production	**kboe/d**	**66.4**	**74.7**
▪ Captain	kboe/d	21.7	23.9
▪ GSA	kboe/d	9.1	12.5
▪ Other Operated[1]	kboe/d	11.5	13.2
▪ Britannia & Satellites[2]	kboe/d	15.6	16.7
▪ Other Non-Operated[3]	kboe/d	8.5	8.4

1. Other-operated assets comprises Erskine, Cook and Alba
2. Includes the Ithaca Energy-operated Alder field subsea tie-back to the Britannia platform
3. Other non-operated assets comprises Elgin / Franklin, Jade, Pierce and the Dons

The producing asset portfolio has performed well during 2020. Average production of 66.4 kboe/d (61% liquids – 56% oil / 5% NGL) is in line with guidance issued in April 2020 when the potential impact of Covid-19 issues and restrictions were incorporated into the outlook.

Production during the period benefitted from solid operational uptime performance across the portfolio, with no major impact arising from the move to minimum offshore manning levels in March 2020 as a result of the measures taken to mitigate the potential impact of Covid-19. Despite these measures in place, the Vorlich field (34% working interest) successfully started production in November 2020.

Production during 2020 has benefitted from the infill drilling programmes that were completed on various assets over the course of last year, which have mitigated the rate of natural production decline across the portfolio. In particular, infill wells drilled in 2019 on the Captain (85% working interest), Stella (100% working interest), Elgin / Franklin (3.9% working interest) and Brodgar (12.5% working interest) fields have all contributed to sustaining solid production volumes in 2020.

While infill drilling activities were temporarily paused on the Company's operated fields, certain wells on the non-operated assets continued. These included the infill drilling activities on the TOTAL-operated Elgin / Franklin (3.9% working interest), the Shell-operated Pierce (7.48% working interest) and Chrysaor-operated Callanish (16.5% working interest) fields.

As a result of issues arising with the water injection and gas lift capability on the EnQuest-operated Dons Area fields in the second quarter of 2020, it was concluded that the fields being served by the "Northern Producer" floating production facility had reached their economic limit. The Dons Area, which is located in the Northern North Sea, consists of the Don Southwest, Conrie and Ythan fields in Blocks 211/18a & 18c (all 40% working interest) and the West Don field in 211/18b & 211/13b (21.4% working interest). These fields ceased production operations in March 2021 and this will enable removal of the Northern Producer ahead of executing the full field decommissioning programme in the years to come. The Dons contributed approximately 0.8 kboe/d or under 2% to the Company's total production in 2020.

DEVELOPMENTS

The Company's development activities are centred on leveraging the value of existing infrastructure in the portfolio, through infill drilling and developing additional resources in the vicinity of the assets

The Company completed the development of the Vorlich field (34% working interest) in November, which represents the third satellite field to be connected to the Ithaca-operated GSA production hub. Development planning activities are also continuing to advance on expansion of the Captain field enhanced oil recovery ("EOR") programme.

Vorlich Field Development
The Vorlich field was developed as a two well subsea tie-back to the Ithaca-operated FPF-1 floating production facility, which lies approximately 10 kilometres to the south of the field.

Through an innovative partnership with field partner BP, Ithaca Energy was contracted to install the subsea infrastructure and execute the modifications on the FPF-1 in order to receive and process Vorlich fluids. BP operated the field through its development phase and drilled the wells. Ithaca Energy has now become the Vorlich Field Operator.

The Vorlich field came online in November 2020, slightly later than the mid-2020 start-up expected prior to the delays imposed by the measures taken to manage Covid-19 related restrictions.

GSA Satellite Field Developments
In addition to the key Vorlich and Captain field development programmes, engineering and procurement activities are progressing for the Abigail (formerly known as Hurricane) field

Ithaca has sanctioned the Abigail development and has submitted the FDP to the OGA for approval which is expected in Q2 2021. First oil is now expected in Q3 2022.

Captain Enhanced Oil Recovery Programme
Based on the performance and incremental production achieved as a result of the Stage I polymer EOR programme on the Captain field (85% working interest), work is progressing on extending this to a second stage of activities. The "Stage II" programme involves the drilling of up to ten additional wells (four producers and six injectors) to optimise oil recovery from the area of the Upper Captain Sands reservoir that is produced using subsea wells. The overall work programme involves the installation of approximately 6 kilometre subsea pipelines and umbilicals to the two subsea areas of the field in order to provide polymer injection capacity and the installation of additional polymer storage tanks and pumps on the Captain platform and floating production, storage and offloading ("FPSO") vessel.

Various supply chain tendering activities are currently on-going for the Stage II work programme, with a view to sanctioning the development before the end of March 2021. While the pace of this has been slowed down by the immediate challenges facing the industry as a result of Covid-19, the development involves a multi-year programme of activities aimed at maximising oil recovery from the field into the 2030s.

With respect to the other subsequent GSA satellite fields, Austen and Courageous, various subsurface and engineering studies are being progressed in order to advance the necessary development plans. These studies are scheduled to continue, along with the evaluation of additional development opportunities within the enlarged asset portfolio resulting from the CNSL acquisition.

Exploration and Appraisal

The Company's exploration and appraisal ("E&A") activities are centred on infrastructure-led opportunities, which leverage the value of the existing portfolio and have an efficient route to the timely monetisation of resources

As announced in March 2020, an exploration well drilled on the "Isabella" prospect (10% working interest) identified hydrocarbons in the Upper Jurassic and Triassic sandstone reservoirs. This is an encouraging high-pressure high-temperature gas condensate discovery in a location close to existing infrastructure. Further analysis of the well results are being performed by the licence Operator, TOTAL E&P North Sea UK Limited ("TOTAL"), to determine future appraisal activity and recoverable resource estimates. The well, in which Ithaca Energy had a carried cost interest as a result of prior farm-out agreements with TOTAL and Euroil Exploration Limited, has been plugged and abandoned.

DECOMMISSIONING

With modest near-term decommissioning activities across the portfolio, the Company's focus over the longer term is on capturing the full benefits associated with the growing industry experience of safely and efficiently executing offshore programmes in a highly cost effective manner

The scheduled well abandonment programme on the Ithaca-operated Jacky field (100% working interest) was completed as planned using the Valaris 101 jack-up drilling rig in June 2020. The three well campaign took approximately 50 days to complete, approximately 10 days longer than forecast due primarily to an extended period of waiting on weather during rig demobilisation operations at the end of the programme.

The Jacky field, which ceased production in 2014, is located in the Inner Moray Firth area of the UK North Sea (Block 12/21c). The main decommissioning activities that remain to be completed on the field involve removal and recycling of the suction-piled, monopole unmanned platform. This work had been scheduled to take place in the third quarter of 2020, but given the complication of Covid-19 related restrictions this is now scheduled for 2021.

In June 2020 approval was received from the Offshore Petroleum Regulator for Environment and Decommissioning ("OPRED") for the Ithaca-operated Anglia field (30% working interest) decommissioning programme. The Anglia field, which ceased production in 2015, is located in Blocks 48/19b and 48/18b in the Southern North Sea. The facilities to be removed consists of a normally unmanned platform and a number of platform and subsea wells.

As a result of issues arising with the water injection and gas lift capability on the EnQuest-operated Dons Area fields in the second quarter of 2020, it was concluded that the fields being served by the "Northern Producer" floating production facility had reached their economic limit. These fields ceased production operations in March 2021 and this will enable removal of the Northern Producer ahead of executing the full field decommissioning programme in the years to come.

HEALTH, SAFETY & ENVIRONMENT

Ithaca Energy's HS&E objective is to provide a safe and healthy working environment for all its employees, contractors and other personnel working for the Company, while simultaneously minimising the environmental impact of the Company's operations by working in an ever-cleaner manner. The control and management of these issues lies at the centre of the policies and procedures that constitute the "Operational Excellence" health, safety and environmental management system used by the Company and the culture of the business.

As part of proactively managing the response to the Covid-19 situation, measures to safeguard the Company's personnel and contractors were established in the first quarter of the year along with emergency response plans and measures to curtail the spread of the virus and at the same time maintain the safe and reliable continuation of business activities. The mitigating measures, which are controlled via our Covid Response Plan, are reviewed on a weekly basis and updated as appropriate to ensure they are aligned with industry and government guidelines.

The Company monitors and manages the Lost Time Injury Frequency ("LTIF") and Total Recordable Injury Frequency ("TRIF") associated with its operated assets as a means of evaluating the health and safety performance of the Company and the suppliers working on the assets.

There have been 5 recordable injuries in 2020, resulting in a year to date LTIF of 1.15 and TRIF of 1.91 as at 31 December 2020 (per million man-hours). This compares with an LTIF of 1.01 and a TRIF of 1.51 as at the end of 2019. Improving operational safety performance, within an open and transparent incident reporting culture, is a continual focus of the business and a combination of targets and specific measures are implemented with a view to facilitating this goal.

The Company has an excellent record on environmental performance, the importance of which is heightened by the requirements associated with conducting offshore oil loading to shuttle tankers at two operated assets, the Captain and Alba fields. The Company had no hydrocarbon releases to sea in 2019. In 2020 the hydrocarbon spills to sea rate is a modest 0.05 barrels (or ca 8 litres) per million barrels (159,000,000 litres) of oil production.

The Company's environment stewardship planning for 2020 includes a commitment to analysing and reducing greenhouse gas emissions, both direct and indirect, in order to contribute towards the industry goal of net zero emissions by 2035. In November, Ithaca Energy established an internal Emissions Task Force whose remit is to set an emissions reduction target for the business, and critical path to achieve that target, for 2021 and beyond.

The carbon intensity of Ithaca Energy's operated assets (emissions over which the Company has direct operational control) in 2019 was 26 kilogrammes of carbon dioxide (equivalent) per barrel of oil equivalent produced ("kg CO_2e/boe"). This was marginally higher than the average level for UK North Sea operators of 24 kg CO_2e/boe. Approximately three-quarters of the emissions is driven by platform and operational power requirements.

During 2020 the Company's carbon intensity increased to 32kg CO_2e/boe. The increased emissions per unit of production was primarily attributable to compressor availability.

INDEPENDENT RESERVES EVALUATION

An updated independent reserve evaluation was performed as of 31 December 2020 – proven and probable reserves and resources were estimated to be 298 MMboe, implying a reserves and resource life of approximately 12 years

In order to satisfy certain regulatory requirements of Ithaca Energy's parent company, the Delek Group Limited, an updated independent reserves evaluation was completed by Netherland Sewell & Associates Inc. ("NSAI").

Total proved and probable reserves ("2P") and resources ("2C") as at 31 December 2020 have been estimated to be 298 million barrels of oil equivalent ("MMboe") an increase of 25MMboe compared to year-end 2019 after taking into account approximately 24 MMboe of production in 2020, a revision upwards of 13MMboe of 2P reserves and an increase of 2C resources by 36 MMboe. The total resource base is comprised of 196 MMboe 2P reserves and 102 MMboe 2C resources. This equates to an approximately 12-year reserves and resource life based on 2020 production.

The report summarising the NSAI reserves evaluation is available on the Company's website (www.ithacaenergy.com).

PORTFOLIO ACTIVITIES

Opportunities to augment the Company's existing portfolio and resource base remain a key component of the business plan, with a focus on potential strategic bolt-on acquisitions from which to leverage existing operating capabilities and experience

As part of expanding the portfolio of potential future development opportunities, two previously reported licence acquisitions were completed in the first half of the year.

In February 2020 the Company signed a Sales and Purchase Agreement with TOTAL E&P UK Limited to acquired the full working interest of licence P.2158 (Block 15/18b). The licence contains the "Yeoman" discovery and southern extent of the Hibiscus Petroleum-operated "Marigold" discovery. The discoveries contain oil and gas within the Palaeocene Balmoral sandstone fairway. Based on the year-end 2020 NSAI report the licence adds resources of around 24 MMboe from the two discoveries. A limited consideration was payable at completion of the acquisition, which took place in the second quarter of 2020, with additional contingent payments at Field Development Plan approval and upon reaching a reserves recovery threshold.

In June 2020 the Company obtained Licence P.2494 (Block 13/22c) from Chrysaor North Sea Limited. The licence contains the "Phoenix" gas discovery, which lies approximately 10km south of the Captain field in a Jurassic reservoir formation. Subsurface and engineering studies are required in order to assess the development potential of the field, with the licence requiring either the submission of a Field Development Plan by July 2022 or relinquishment. It is estimated that the licence adds approximately 10 MMboe of resources (based on Management estimates).

The Company continues to actively engage in the UK Offshore Licencing Rounds conducted by the Oil & Gas Authority ("OGA"). In September, Ithaca Energy was awarded a combination of operatorship and significant working interest in seven North Sea exploration Licences under the UK 32nd Licensing Round.

The awards relate to a range of undeveloped discoveries and near-field exploration targets in the vicinity of the Company's existing portfolio, with proposed work programmes relating predominantly to the performance of subsurface and technical studies in order to make "drill or drop" decisions within a period of two to four years.

The awards are:

- Block 13/17b and 13/18 which lie north of Captain. Ithaca Energy is offered 100% working interest as the sole licensee.

- Blocks 13/21b, 13/22b and 13/17c, for an extension of the Captain field. Ithaca Energy has been offered 100% working interest as the sole licensee.
- Block 22/1a, south of the Alba Field. Ithaca Energy has been offered Operatorship and a 50% working interest together with Spirit Energy who hold a 50% working interest.
- Block 16/27d, east of Alba and Britannia. Ithaca Energy has been offered a 25% working interest together with Chrysaor (Operator), Spirit Energy and Zennor Petroleum.
- Blocks 21/19c and 21/20c, for an extension of the Cook field. Ithaca Energy has been offered Operatorship and a 61.35% working interest.
- Blocks 21/19d and 21/24b, which lie west of the Cook Field. Ithaca Energy has been offered a 100% working interest as the sole licensee.
- Blocks 30/1g and 30/6b, containing the Kessog undeveloped discovery. Ithaca Energy has been offered a 100% working interest as the sole licensee.

FINANCIAL STRATEGY

The Company's strategy is centred on maintaining a conservative financial profile and strong liquidity headroom in order to protect the resilience of the business and enable the delivery of long term growth and value creation

Under the current challenging commodity market conditions, the key financial priority is to maintain the financial strength of the Company. Following the refinancing completed in 2019 as part of the CNSL acquisition, the business has no near term debt maturities and remains fully financed for its prevailing investment plans.

As part of maintaining capital strength, a core component of the Company's financial strategy is to consistently protect the cash flows of the business and underpin investment expenditures and debt obligations through commodity price hedging covering an approximately two to three year time horizon.

The Company has in place hedging arrangements (swaps and puts) for approximately 23 MMboe (62% oil) of production from the start of 2021 into 2023, at an average price floor of $44/bbl oil and 41p/therm gas.

As previously reported, the Company "reset" a portion of its 2021-22 oil hedges in the second quarter of the year as part of enhancing the liquity position of the business following the dramatic fall in oil prices in March 2020. This enabled the acceleration of $155 million of oil price hedging gains into the second half, equating to approximately $19 per hedged barrel, while maintaining the underlying hedged volumes with swaps at the prevailing forward curve prices at the time of the reset. The cash generated was used to reduce the Company's drawn RBL debt.

As commodity prices continue to recover following the dramatic fall in the first part of this year, the Company expects to continue opportunistically adding further hedging protection over the medium term horizon. Such hedging is typically undertaken via swaps and puts.

In addition to the revenue protection provided by the Company's extensive commodity hedging position, the free cash flow generation of the business is also strengthened by a UK tax allowances pool of approximately $1.8 billion carried forward as of 31 December 2020. Based on current commodity prices, these allowances are forecast to shelter the Company from the payment of tax over the medium term.

The Company's capital allocation priorities are centred on a balanced and proportionate blend of investment to further enhance the value of the business, debt service and shareholder returns. While the capital expenditure programme for 2020 was significantly reduced in order to manage the Covid-19 situation and maintain financial flexibility, the option remains to reinitiate those investment plans at the appropriate time given the dominance of the Company's operated asset positions across the portfolio.

In terms of shareholder returns, the Company has the flexibility to pay up to a $135 million dividend to its parent company, the Delek Group, subject to the terms of its RBL facility agreement. Any further distributions are subject to the Company not exceeding a 1.3x leverage ratio and distributing no more than 50% of the cumulative net income generated from the start of the fourth quarter 2019, as per the terms governing distributions in the senior notes indenture. In conjunction with completion of the six-monthly RBL redetermination in Q4 2020, a $100 million dividend was paid to the Delek Group in November 2020, to bring total dividends for the year to $120 million. It has also been agreed that under the current RBL, further dividends in 2021 will be subject to Brent prices recovering to 6 monthly average of $50/bbl.

DEBT FINANCE

In conjunction with completing the Chevron North Sea Limited acquisition, the Company completed a refinancing of its capital structure in 2019. This involved the injection of additional equity capital into the business by the Delek Group and the replacement of existing debt facilities with an enlarged Reserves Based Lending ("RBL") facility and the issuance of senior unsecured notes. As such the business is funded from its existing debt facilities and cash generation from the producing asset portfolio.

In October 2020 the Company completed its scheduled six-monthly RBL facility redetermination process. In conjunction with concluding the RBL redetermination, in November 2020, the company paid a $100 million dividend to the Delek Group to bring total dividends for the year to $120 million.

Following the redetermination, RBL availability as at 31 December 2020 was approximately $1.1 billion, resulting in liquidity headroom of approximately $346 million, after taking account of the dividend payments.

The financial statements also reflect a Subordinated Shareholder Loan due to Ithaca Energy's parent company, Delek Group Limited, of $250 million. Due to its deeply subordinated nature, this is considered equity-like in the Company's external reporting and by the credit rating agencies.

As at 31 December 2020, net debt was $1,219 million:

- $720 million drawn under a $1,066 million Reserves Based Lending facility, which matures in May 2024
- $500 million senior notes, paying a 9.375% coupon, maturing in July 2024
- $1 million of cash held on the balance sheet.

Based on EBITDAX of approximately $745 million for the year ending 31 December 2020, the leverage ratio of the Company as of that date was 1.6x. This is comfortably below the Company's target of maintaining leverage through the cycle of under 2.0x.

The Company's corporate credit rating as at 15 March 2021 from Moody's, S&P and Fitch are B1 (Outlook Negative), CCC+ (Stable) and B (Rating Watch Negative), respectively.

2020 RESULTS OF OPERATIONS

The financial results for the year ended 2020 reflect the material step-up in the scale of the business following completion of the CNSL acquisition in November 2019

TRADING ENVIRONMENT

Over the course of 2020, the average Brent benchmark price was $42/bbl, down nearly 1/3 on the same period in 2019 (2019: $64/bbl). Perhaps more significantly, however, the Brent benchmark price has been extremely volatile during 2020 as a result of both over supply following the discord between Saudi Arabia and Russia in March 2020 and massive demand destruction arising from escalation of the Covid-19 pandemic during the period. As a consequence, the Brent benchmark moved from a high of $70/bbl at the start of the period to a low of $17/bbl in March, following which it steadily moved upwards to mainly be between $40 - $45/bbl.

The "NBP" UK gas price benchmark has been on a declining trend since late 2018, with average prices in 2018 and 2019 of 60p/therm and 35p/therm, respectively. This trend has been predominantly driven by an increased flow of North American LNG into the European market. The reduction in industrial gas demand that has arisen as a consequence of Covid-19 restrictions and the associated economic slowdown has also contributed to recent weakness in gas prices, although the benchmark price has shown some signs of strength in recent months. The average NBP price in 2020 was 25p/therm or $3.2/MMbtu (2019: 32p/therm /$4.1/MMbtu).

REVENUE

$'000	2020	2019
Oil Sales	**584,960**	334,480
Gas Sales	**172,152**	126,710
NGL Sales	**36,219**	28,858
Other Income	**9,638**	1,659
Cashflow Hedge Accounting	**373,156**	90,532
Total	**1,176,125**	582,239

Total revenue increased by $593.9 million in 2020 to $1,176.1 million (2019: $582.2 million) driven primarily by increased volumes from the enlarged business resulting from completion of the CNSL acquisition in November 2019. Total production in 2020 was 24.3 MMboe, up 134% on 2019 production of 10.4 MMboe.

OIL

Oil revenues increased significantly in 2020, mainly as a result of the additional contribution from the CNSL assets in the period. Volumes increased by 9.0 MMbbl to 13.7 MMbbl, with 11.4 MMbbl attributable to liftings from the CNSL assets, coupled with an increase of approximately 2.3 MMbbl on the original Ithaca Energy assets.

Average realised oil prices decreased to $44/bbl in 2020 from $66/bbl 2019. This is approximately 5% above the average Brent price for the period, which dropped to $42/bbl in 2020 from $64/bbl in 2019.

While realised oil prices for each of the fields in the Company's portfolio do not strictly follow Brent prices, with some fields sold at a discount or premium to Brent and under contracts with differing timescales for pricing, the average realised price for all the fields trades largely in line with Brent. The positive differential for 2020 is mainly due to lifting patterns, with significant lifting volumes relating to barrels produced in the months during the period when prices were high (the swing in the Brent benchmark price during the year was between $70/bbl and $17/bbl).

GAS AND NGLS

Gas and NGL revenues increased from $155.6 million in 2019 to $208.4 million in 2020. Gas and NGL volumes have almost doubled between the two periods due to the contribution of the assets acquired with the CNSL transaction (largely due to the addition of the Britannia and Satellite field interests). In particular, total gas sales increased from 5.4 MMboe to 10.6 MMboe. However, the potential increase in gas revenues was tempered as a result of realised gas prices falling from 32p/therm in 2019 to 25p/therm in 2020 due to a significant drop in UK NBP spot market prices. Like the Company's oil production, the average realised gas price for gas sales is at or around the UK benchmark price less national grid entry charges.

For commentary on the cashflow hedge accounting reported of $373.2 million for the year to 31 December, please refer to the financial instruments section below.

COST OF SALES

$'000	Q3 YTD 2020	Q3 YTD 2019
Operating Expenditure	**(418,979)**	(198,713)
DD&A	**(372,831)**	(235,177)
Movement in Oil and Gas Inventory	**(2,300)**	2,124
Royalties	**(1,999)**	(5,749)
Total	**(796,109)**	(437,515)

Cost of sales increased in 2020 by approximately 82% to $796.1 million (2019: $437.5 million) primarily driven by the 134% increase in production arising from the addition of the CNSL assets, partly mitigated by other factors as noted below. The overall increase in cost of sales is predominantly associated with two main categories of expenditure, Operating Costs and Depreciation, Depletion and Amortisation ("DD&A") expenses, with both increases naturally due to the acquisition of the CNSL assets.

OPERATING EXPENDITURE

Operating costs increased to $419.0 million in 2020 (2019: $198.7 million) due to the increased scale of the producing asset portfolio. The corresponding unit cost has fallen to $16/boe in the period, when tanker costs are treated as a revenue offset. This compares to a 2019 rate of $19/boe. This decrease is driven by an improved mix of lower cost assets within the overall portfolio and various cost reduction initiatives that have been undertaken since acquiring the larger operated asset base.

DD&A

Total DD&A expense for the period was $372.8 million (2019: $235.2 million). This increase in expense was due to higher production volumes, but offsetting this, the unit DD&A rate dropped from $22/boe to $15/boe due to a combination of the impact of the post-acquisition DD&A rates across the wider portfolio and the asset impairments recognised in the first quarter of 2020.

MOVEMENT IN INVENTORY

An oil and gas inventory movement of $2.3 million was charged to cost of sales for the period (2019: credit of $2.1 million). Movements in inventory tends to be driven by differences in oil production and liftings, as title for gas production generally passes to the buyer as the gas flows through the pipeline system. This means that there are no significant under or overlifts

relating to gas sales. In the period to 31 December 2020 volumes produced (24.3 MMbbl) were in line with that sold (24.1 MMbbl).

Movement in Operating Oil and Gas Inventory	Oil (kbbls)	Gas/NGL (kboe)	Total (kboe)
Opening Inventory	721	108	**829**
Production	13,655	10,634	**24,289**
Liftings/Sales	(13,431)	(10,668)	**(24,099)**
Disposals/Transfers/Others	54	52	**106**
Closing Volumes	999	126	**1,125**

IMPAIRMENT CHARGES AND EXPLORATION AND EVALUATION EXPENSES

$'000	2020	2019
Exploration and Evaluation Write Off	**(1,450)**	(195)
Impairment of Oil and Gas Assets	**(474,859)**	(106,811)
Impairment of Goodwill	**(206,729)**	-
Total	**(683,038)**	(107,006)

EXPLORATION AND EVALUATION EXPENSES

Total Exploration and Evaluation (E&E) write off for the period was $1.5 million (2019: $0.2 million) for non-commercial prospects.

IMPAIRMENT

During 2020, the Group recorded a $476 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 which was driven by the lower forward curve for both oil and gas prices resulting in asset impairments and goodwill impairment. 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 3Q as a result of the increased decommissioning costs in relation to Jacky and a change in phasing of decommissioning spend on the Dons hub. Both fields are no longer producing and have no remaining net book value resulting in the impairment during the third quarter.

During the fourth quarter, 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 due to increased decommissioning provisions for assets that have already ceased production.

ADMINISTRATION EXPENSES

$'000	2020	2019
General and Administration	**(17,504)**	(5,070)
Non-recurring costs	**(19,300)**	(17,055)
Total Administration Expenses	**(36,804)**	(22,125)

Total administrative expenses were $36.8 million in the period (2019: $22.1 million). G&A costs have increased in the period primarily due to approximately 71 onshore employees taking up the Company's voluntary redundancy programme resulting in a one-off cost to Ithaca of $11.4 million coupled with some residual corporate costs relating to the CNSL acquisition, alongside the significant upsizing of the business post the CNSL acquisition. Underlying G&A costs continue to be subject to disciplined management, totalling approximately $2/boe.

FOREIGN EXCHANGE & FINANCIAL INSTRUMENTS

$'000	2020	2019
Gain on Foreign Exchange	**8,232**	985
Total Gain on Foreign Exchange	**8,232**	985

FOREIGN EXCHANGE

A foreign exchange gain of $8.2 million was recorded in the period (2019: $1.0 million) mainly due to volatility in the GBP:USD exchange rate, with fluctuations throughout the year from a low of 1.23 to a closing rate of 1.36 on 31 December 2020.

As the majority of the Company's creditors are paid in GBP, this has resulting in a gain on settlement of invoices.

FINANCIAL INSTRUMENTS

The Company cash flow hedge accounts for both commodities and interest rate intruments, while accounting for foreign exchange instruments is done on a mark-to-market basis. This effectively means that the accounting impact relating to financial instruments is split between the Income Statement and the Statement of Other Comprehensive Income (SOCI) as set out in the following tables.

$'000	2020	2019
Revaluation of commodity hedges	**(3,696)**	(1,505)
Revaluation of other instruments	**3,504**	3,329
Total Revaluation (Loss)/Gain	***(192)***	*1,824*
Realised gain/(loss) on commodity hedges	**2,006**	(273)
Realised loss on other instruments	**(2,300)**	(977)
Total Realised Loss	***(294)***	*(1,250)*
Ineffectiveness on cash flow hedges	**-**	(74)
Income Statement (Loss)/Gain on Financial Instruments	**(486)**	500

$'000	2020	2019
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 Cashflow Hedge Gain in SOCI	**28,420**	4,325

In total, the Company recorded a loss of $0.5 million on financial instruments in the Income Statement for the period (2019: $0.5 million gain). A gain was recognised in the Statement of Other Comprehensive Income of $28.4 million (2019: $4.3 million gain). The application of cash flow hedge accounting means that revaluation amounts relating to financial instruments are booked to a Cash Flow Hedge Reserve until the period when the hedge is realised.

The Income Statement contains a revaluation loss of $0.2 million relating primarily to foreign exchange instruments, while the Statement of Other Comprehensive Income shows a revaluation loss of $126 million relating to commodity instruments. The revaluation is driven by the commodity price forward curve as at the valuation date – as the forward curve falls, the value of the instruments increase and vice versa. Oil spot prices fell from $64/bbl in 2019 to $42/bbl with gas moving similarly, falling from 32p/therm in 2019 to 25p/therm, subsequently we have seen some price recovery in the fourth quarter of the year. These movements resulted in significant revaluation losses at the end of 2020.

The amount recycled to revenue in the period was $373.2 million, reflecting the success of the Company's hedging programme. This represents the instruments crystallising in the period and is partially offset by the related put premiums of $73.8 million which were recycled to finance costs along with the crystallised interest rate hedges.

The Company executed an oil hedging re-set programme in response to the decline in oil prices in March and April 2020. During the period, hedges with a value of $155 million were re-set, which was received in cash during the period (and used to reduce the drawn debt under the RBL facility). All the hedges that were re-set were replaced with new positions at the forward curve prices prevailing at the time.

The following table summarises the commodity hedges in place at 31 December 2020.

Derivative	Term	Volume bbls	Av. Price $/bbl
Oil Puts	Jan 2021 – Dec 2021	1,927,750	56
Oil Swaps	Jan 2021 – Dec 2022	7,540,238	40
Derivative	**Term**	**Volume (therms)**	**Av. Price (p/therm)**
Gas Puts	Jan 2021 – Mar 2023	305,250,000	45
Gas Swaps	Jan 2021 – Dec 2022	191,500,000	44

As of 31 December 2020 the Company's commodity hedges were valued as a liability of $74.2 million based on valuations relative to the respective forward curves. This comprises an oil hedging liability of $66.3 million coupled with a gas hedging liability of $6.8 million, an interest rate hedge liability of $7.9 million; offset by a foreign exchange forward asset of $6.8 million.

FINANCE COSTS

$'000	2020	2019
Bank Interest and Charges	**(55,132)**	(41,855)
Senior Notes Interest	**(47,132)**	(35,658)
Loan Fee Amortisation	**(9,457)**	(14,751)
Accretion	**(43,397)**	(20,378)
Put Premiums	**(68,557)**	(44,320)
Other	**(9,545)**	(1,023)
Total Finance Costs	**(233,220)**	(157,986)

Finance costs charged to the Income Statement increased to $233 million in 2020 (2019: $158 million). This increase is primarily attributable to changes in financing arrangements associated with the CNSL acquisition, including repayment of the RBL facility that was in place prior to the refinancing completed in 2019, including repayment of a $300 million term loan with JP Morgan. These facilities were replaced with a $1.65 billion RBL facility ($720 million drawn as at 31 December 2020) and $500 million senior unsecured notes. The extent of the Company's commodity hedging programme means put premiums have increased significantly compared to last year. This is reflected in the significant step up in cash flow hedging gains recognised in revenues. Accretion has also increased due to the additional decommissioning liabilities associated with the CNSL assets.

TAXATION

$'000	2020	2019
Corporation Tax – Current	**(384)**	(22,921)
Corporation Tax – Deferred	**159,354**	146,929
Corporation Tax – Other Comprehensive Income	**(11,368)**	(1,730)
Total UK Corporation Tax	**147,602**	122,278

A tax credit of $147.6 million was recognised in the period (2019: $122.3 million credit). This is less than the expected credit of 40% of the combined Income Statement and the Statement of Other Comprehensive Income loss due primarily to the goodwill impairment at the end of Q1 2020, which is not tax deductable.

The Company's total carried forward UK tax allowances as at 31 December 2020 were approx. $1.8 billion (31 December 2019 $2.4 billion). Based on current commodity prices, these allowances are forecast to shelter the Company from the payment of tax over the medium term.

CAPITAL INVESTMENTS

$'000	Additions 2020
Development and Production (D&P)	87,617
Exploration and Evaluation (E&E)	24,611
Other Fixed Assets	2,880
Total	115,108
Non cash decommissioning revisions	144,676
Total capex additions	259,784

The capital expenditure programme during the year has been mainly focused on the Captain field and activities associated with the expansion of the on-going enhanced oil recovery programme, investments on the Vorlich and Abigail fields in the GSA and the acquisition of the "Yeoman" undeveloped discovery licence interest from Total E&P UK Limited.

WORKING CAPITAL

$'000	31 Dec 2020	31 Dec 2019	Increase / (Decrease)
Cash and Cash Equivalents	1,203	15,059	(13,856)
Trade and Other Receivables	109,213	158,149	(48,936)
Inventory - Hydrocarbon	53,695	56,774	(3,079)
Inventory – Materials	41,517	43,322	(1,805)
Other Current Assets	10,213	8,660	1,553
Trade and Other Payables	(259,725)	(368,462)	108,737
Net Working Capital[1]	(43,884)	(86,498)	(42,614)

1. Working capital being total current assets less trade and other payables, excluding derivative instruments.

As at 31 December 2020 the Company had a net working capital credit balance of $43.8 million, including an unrestricted cash balance of $1.2 million held in accounts with BNP Paribas.

Substantially all of the Receivables are current, being defined as less than 90 days. The Company regularly monitors all receivable balances outstanding in excess of 90 days. No credit loss has historically been experienced in the collection of accounts receivable.

The significant item driving the movement from year end is payment in the first quarter of 2020 of $65 million relating to the 2019 Corporation Tax due by CNSL prior to the acquisition.

Working capital movements are driven by the timing of receipts and payments of balances, which fluctuate in any given period. Of the Company's $104.7 million accounts receivable balance a significant proportion, $31.3 million, relate to hedging receipts due. The remainder of the balance is predominantly due from co-ventures in the oil and gas industry and is subject to normal joint venture/industry credit risks.

CAPITAL RESOURCES – DEBT FACILITIES

In November 2019, alongside completion of the CNSL acquisition, the Company completed its process of refinancing the business. The existing Subordinated Shareholder Loan with the Company's parent company, the Delek Group, was increased from $100 million to $250 million, alongside a $590 million increase to the Company's issued and fully paid share capital.

In addition, the existing RBL facility was increased from $400 million to $1,650 million, with the term of the facility extended to April 2024, and the $300 million term loan with JP Morgan that was in place prior to the refinancing being simultaneously retired. Following the RBL redetermination in November 2020, the facility availability is now $1,066 million.

The final part of the refinancing involved the issuance of $500 million 9.375% senior unsecured notes due July 2024, with interest payable semi-annually. The notes offering was completed on 1 August 2019 and the funds were held in escrow until release at completion of the CNSL acquisition on 8 November 2019.

The following table summarises the funds drawn under the debt facilities noted above. This highlights that net debt at 31 December 2020 was $1,218.8 million.

Debt Summary (M$)	2020	2019
RBL Facility	720.0	1055.0
Senior Notes	500.0	500.0
Total Debt (excl equity type subordinated debt)	**1,220.0**	**1,555.0**
UK Cash and Cash Equivalents	(1.2)	(15.1)
Net Drawn Debt (excl equity type subordinated debt)	**1,218.8**	**1,539.9**
Equity Type Subordinated Debt	250.0	250.0
Net Drawn Debt	**1,468.8**	**1,789.9**

Note: This table shows debt repayable as opposed to the reported balance sheet debt which nets off capitalised RBL and Term Loan costs.

The key covenants in the RBL facility are as follows:

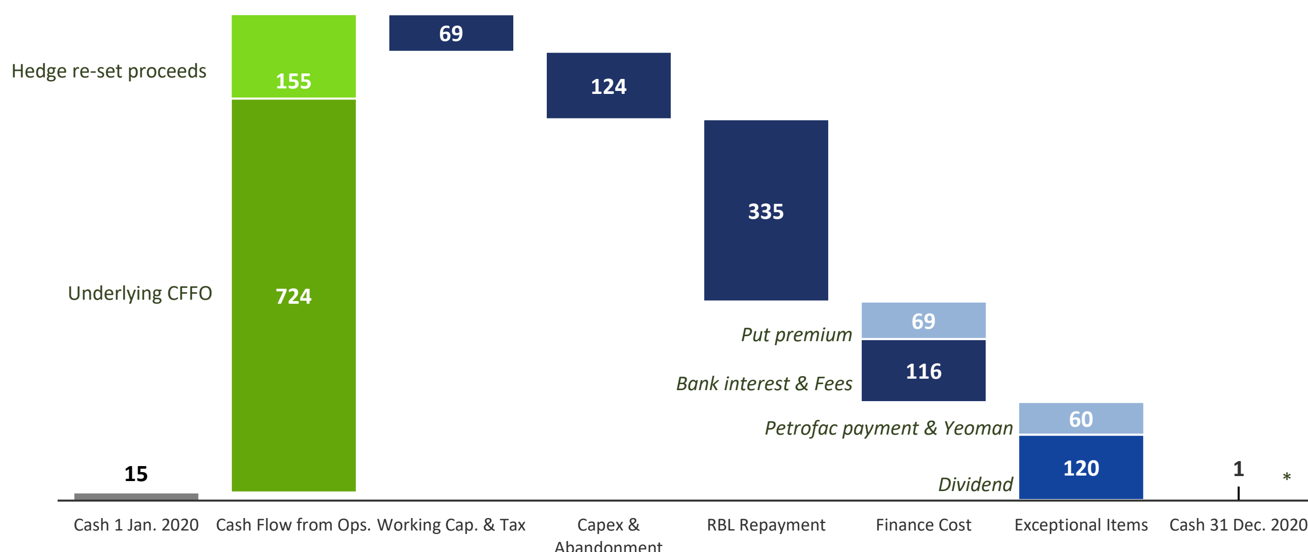
- Total projected sources of funds must exceed the total projected uses of funds for the remaining term of the RBL
- The ratio of the net present value of cashflows secured under the RBL for economic life of the fields to the amount drawn under the facility must not fall below 1.15:1
- The ratio of the 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

The Company was in compliance with all its relevant financial and operating covenants during the period to 31 December 2020.

There are no historic or maintenance financial covenant tests associated with the senior unsecured notes or the Subordinated Shareholder Loan.

2020 CASH FLOW MOVEMENTS

During the year ended 31 December 2020 there was a cash outflow from operating, investing and financing activities of approximately $14 million (2019 outflow of $2.4 million); as set out in the following graph:



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Cash flow from operating activities was $879 million. Revenues from the producing asset portfolio have been supported by a successful hedging programme and carefully controlled operating costs resulting in cash inflows of $724 million for the period. In addition, funds were received from the hedging re-sets during 1H 2020 totalling $155 million.

Movements in working capital resulted in an outflow of cash totalling $69 million in the period. This was primarily driven by a tax payment of $65m made in Q1 2020 relating to 2019 profits made by CNSL. The remaining balance arises due to a build up in working capital related to timing of receipt of payment for oil and gas hedges.

Cash spend on capital expenditure in the period was $124 million, with the key contributors being on Captain and drilling Pierce and Callanish.

The Company aims to maintain minimal cash on hand and prioritises repayment of the RBL facility with excess cash. During the period $335 million of drawn RBL was repaid.

During 2020, the Company paid finance costs totalling $185 million. This was split $116 million in interest paid to lenders and $69 million paid in deferred premiums on oil and gas put options.

The Company accelerated a deferred acquisiton payment to Petrofac previously due in Q4 2020 of this year into the second quarter of 2020 in exchange for a significant discount. A payment of $57 million was made in respect of this liability during the period. A further payment of $3 million was paid to acquire the Yeoman licence. Additionally, a dividend of $120 million was distributed in the year.

COMMITMENTS

$'000	1 Year
Engineering	65.519
Total	65,519

The Company's operational commitments primarily relate to on-going project and drilling activities across the portfolio.

CONSOLIDATION

The consolidated financial statements of the Company and the financial data contained in this Management Discussion and Analysis are prepared in accordance with IFRS. The consolidated financial statements include the accounts of Ithaca Energy and its wholly-owned subsidiaries, listed below.

Wholly owned subsidiaries:

- Ithaca Energy (Holdings) Limited
- Ithaca Energy (UK) Limited
- Ithaca Minerals (North Sea) Limited
- Ithaca Energy Holdings (UK) Limited
- Ithaca Energy (North Sea) plc
- Ithaca Petroleum Limited
- Ithaca Causeway Limited
- Ithaca Exploration Limited
- Ithaca Alpha (N.I.) Limited
- Ithaca Gamma Limited
- Ithaca Epsilon Limited
- Ithaca Petroleum EHF
- Ithaca SPL Limited
- Ithaca SP UK Limited
- Ithaca Dorset Limited
- Ithaca GSA Holdings Limited
- Ithaca GSA Limited
- Ithaca Energy Developments UK Limited
- FPF1 Limited
- Ithaca Oil & Gas Limited

All inter-company transactions and balances have been eliminated on consolidation. A significant portion of the Company's North Sea oil and gas activities are carried out jointly with others. The consolidated financial statements reflect only the Company's proportionate interest in such activities.

CRITICAL ACCOUNTING ESTIMATES

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These accounting policies are discussed below and are included to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported. Ithaca Energy's management reviews these estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of significant accounting policies and associated estimates is not meant to be exhaustive. The Company might realise different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Capitalised costs relating to the exploration and development of oil and gas reserves, along with estimated future capital expenditures required in order to develop proved and probable reserves are depreciated on a unit-of-production basis, by asset, using estimated proved and probable reserves as adjusted for production.
A review is carried out at each reporting date for any indication that the carrying value of the Company's D&P and E&E assets may be impaired. For assets where there are such indications, an impairment test is carried out on the Cash Generating Unit ("CGU"). Each CGU is identified in accordance with IAS 36. The Company's CGUs are those assets which generate largely independent cash flows and are normally, but not always, single developments or production areas. 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 of disposal and value in use, where the value in use is determined from estimated future net cash flows. Any additional depreciation resulting from the impairment testing is charged to the Statement of Income.

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 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.

Recognition of decommissioning liabilities associated with oil and gas wells are determined using estimated costs discounted based on the estimated life of the asset. In periods following recognition, the liability and associated asset are adjusted for any changes in the estimated amount or timing of the settlement of the obligations. The liability is accreted up to the actual expected cash outlay to perform the abandonment and reclamation. 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.

All financial instruments are initially recognised at fair value on the balance sheet. The Company's financial instruments consist of cash, accounts receivable, deposits, derivatives, accounts payable, accrued liabilities, contingent consideration and borrowings. Measurement in subsequent periods is dependent on the classification of the respective financial instrument.

The determination of the Company's income and other tax liabilities / assets requires interpretation of complex laws and regulations.Tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded on the financial statements.

The accrual method of accounting will require management to incorporate certain estimates of revenues, production costs and other costs as at a specific reporting date. In addition, the Company must estimate capital expenditures on capital projects that are in progress or recently completed where actual costs have not been received as of the reporting date.

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