Ithaca Energy Limited

Year ending 31 December 2021

FINANCIAL STATEMENTS

Directors' Report for the year ended 31 December 2021

The Directors present their report and the audited financial statements of Ithaca Energy Limited ("the Group") for the year ended 31 December 2021.

Principal activities and review of the business

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

After two years of working alongside the Covid-19 virus, production efficiency levels have returned to pre-Covid levels and at times have exceeded them. Almost all maintenance work and the capital expenditure activities are back on track and the Directors believe that the Group can continue to operate safely and effectively despite the pandemic.

Commodity prices have been subject to further significant volatility through 2021 however in an upward direction in contrast to the sharp decline in 2020. The continued focus on cost base, production efficiency and a strong commodity hedging position has driven a significant improvement in the net result for the year.

Ithaca's 2022 strategic focus is centred on being a high performance, high reliability organisation, 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 profit for the financial year recognised through the Consolidated Statement of Income was $475.2 million (2020: $401.8 million loss) after recognising a pre tax impairment reversal of $465.2 million (2020: $681.6 million impairment). Additional hedging losses of $291.9 million (2020: $17.1 million profit) 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 $15 million (2020: $120 million).

Climate change

Impacts related to climate change and the transition to a lower carbon economy may include:

- demand for the Group's commodities decreasing, due to policy, regulatory (including carbon pricing mechanisms), legal, technological, market or societal responses to climate change, resulting in a proportion of a CGU's reserves becoming incapable of extraction in an economically viable fashion;
- physical impacts related to acute risks resulting from increased severity of extreme weather events, and those related to chronic risks resulting from longer term changes to climate patterns.

The Group continues to develop its assessment of the potential impacts of climate change and the transition to a lower carbon economy. Where sufficiently developed, the potential financial impacts on the Group of climate change and the transition to a lower carbon economy have been considered in the assessment of indicators of impairments, including:

- the Group's current assumptions relating to demand for commodities and carbon pricing and their impact on the Group's long term price forecasts;
- the Group's operational emissions reduction strategy.

Directors

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

G Myerson
D Crawford (appointed 1 February 2021)
T Polikar (appointed 1 February 2021)
A Bruce (appointed 24 August 2021)
B Dunnett (resigned 14 September 2021)

Company Auditors

During the year, Ernst & Young resigned as auditor of the Group and Deloitte LLP were appointed as auditors for the year ended 31 December 2021. Deloitte LLP have expressed their willingness to continue in office as auditor. Appropriate arrangements have been put in place for them to be deemed reappointed in the absence of an Annual General Meeting.

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 have been prepared in accordance with International Financial Reporting Standards ('IFRS'). 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 profit or 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;
- prepare financial statements 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; and
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

Directors' Report for the year ended 31 December 2021 (continued)

The Directors are responsible for keeping accounting records, which are sufficient to show and explain its transactions and 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

29 March 2022

Independent auditor’s report to the members of Ithaca Energy Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Ithaca Energy Limited (the ‘parent company’) and its subsidiaries (the ‘group’):

- give a true and fair view of the state of the group’s affairs as at 31 December 2021 and of the group’s profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been properly prepared in accordance the Companies (Jersey) Law 1991.

We have audited the financial statements 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 flow; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.

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 in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group’s ability to continue as a going concern for a period of at least twelve months 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.

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 we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the statement of directors’ responsibilities, 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.

Independent auditor's report to the members of Ithaca Energy Limited

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of directors, management and legal counsel about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Companies (Jersey) Law 1991 and Tax Legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included Health and Safety legislation, Operating licence and environmental regulations.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, financial instrument, IT and reserves specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud and/or non-compliance with laws and regulation with respect to a significant risk identified on the impairment reversals of $465m recognised in the year. Our specific procedures to address it included the following:

- Developing an independent reasonable range of forecast commodity prices based on external data obtained, against which we compared management's commodity price assumptions to determine if these fall within a reasonable range;
- Assessing the basis for management's commodity price assumptions during the course of the current year, at the time of each impairment assessment performed to determine whether they are indicative of management bias;
- Assessment of reversals taken against requirements of IAS 36 to ensure they are a reflection of an increase in service potential in the current year; and
- Recomputing the maximum available reversal permissible under IAS 36 based on prior years' impairment charges recorded by the group.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- obtaining an understanding of management's remuneration and key performance indicators that drive the level of remuneration; and
- reading minutes of meetings of those charged with governance, reviewing minutes of meetings of the technical committee and reviewing correspondence with HMRC and the licensing authority on oil and gas exploration, production and decommissioning.

Independent auditor's report to the members of Ithaca Energy Limited

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

- proper accounting records have not been kept by the parent 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 accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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.

"Graham Hollis, ACA"
For and on behalf of Deloitte LLP
Aberdeen, United Kingdom
29 March 2022

Consolidated Statement of Income

For the year ended 31 December 2021

Continuing operations

	Note	2021 US$'000	2020 US$'000
Revenue	*5*	**1,470,046**	1,176,125
Operating costs		**(424,046)**	(418,981)
Royalties	*6*	**(6,192)**	(1,999)
Movement in oil and gas inventory		**6,970**	(2,300)
Depletion, depreciation and amortisation	*13*	**(455,913)**	(372,831)
Cost of sales		**(879,181)**	(796,111)
Gross Profit		**590,865**	380,014
Exploration and evaluation expenses	*12*	**(156)**	(1,450)
Movement in contingent consideration		**8,250**	4,484
Loss on financial instruments	*25*	**(453)**	(486)
Impairment reversal / (charge) on oil & gas assets	*15*	**465,271**	(681,588)
Gain on acquisition		**10,454**	-
Administrative expenses	*7*	**(14,246)**	(36,804)
Foreign exchange		**(3,970)**	8,232
Net finance costs	*8*	**(243,664)**	(233,220)
Profit / (Loss) Before Tax		**812,351**	(560,818)
Taxation	*23*	**(337,150)**	158,970
Profit / (Loss) After Tax		**475,201**	(401,848)

The accompanying notes on pages 12 to 28 are an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	**2021** **US$'000**	2020 US$'000
Profit / (Loss) for the period		**475,201**	(401,848)
Items that may be reclassified to profit and loss			
Fair value (loss) / gain on cash flow hedges	*25*	**(486,579)**	28,420
Deferred tax on cash flow hedges	*23*	**194,632**	(11,368)
Other comprehensive (loss) / income		**(291,947)**	17,052
Total comprehensive income /(loss)		**183,254**	(384,796)

The accompanying notes on pages 12 to 28 are an integral part of the financial statements.

Consolidated Statement of Financial Position
as at 31 December 2021

	Note	2021 US$'000	*Restated* 2020 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**44,849**	1,203
Accounts receivable	*9*	**228,290**	109,213
Decommissioning receivable	*9*	**94,640**	28,836
Deposits, prepaid expenses and other receivables	*10*	**10,536**	10,213
Inventory	*11*	**177,619**	106,692
Derivative financial instruments	*26*	**4,949**	29,042
		560,883	285,199
Non current assets			
Decommissioning receivable	*9*	**152,184**	215,994
Long-term inventory	*11*	**532**	2,898
Exploration and evaluation assets	*12*	**116,355**	70,589
Property, plant & equipment	*13*	**2,958,733**	2,583,713
Deferred tax assets	*23*	**220,918**	382,114
Derivative financial instruments	*26*	**-**	2,706
Goodwill	*14*	**722,075**	722,075
		4,170,797	3,980,089
Total assets		**4,731,680**	4,265,288
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	*18*	**(468,644)**	(271,205)
Decommissioning liabilities	*19*	**(94,640)**	(28,836)
Other current liabilities	*20*	**(53,017)**	(6,080)
Contingent consideration	*21*	**-**	(8,250)
Derivative financial instruments	*26*	**(419,171)**	(82,266)
		(1,035,472)	(396,637)
Non current liabilities			
Borrowings	*16*	**(954,616)**	(1,436,883)
Decommissioning liabilities	*19*	**(1,546,849)**	(1,387,400)
Other long term liabilities	*20*	**(6,082)**	(53,826)
Contingent consideration	*21*	**(19,480)**	(5,950)
Derivative financial instruments	*26*	**(39,971)**	(23,636)
		(2,566,998)	(2,907,695)
Net Assets		**1,129,210**	960,956
Shareholders' equity			
Share capital	*22*	**640,979**	640,979
Share premium	*22*	**609,098**	609,098
Cash flow hedge reserve		**(247,653)**	44,294
Retained earnings/accumulated (loss)		**126,786**	(333,415)
Total equity		**1,129,210**	960,956

A reclassification between inventory and trade and other payables of $11.5 million was made on the balance sheet at 31 December 2020 relating to materials held at partner operated sites. The expected decommissioning spend on Heather was also reclassified to short term.

The financial statements were approved by the Board of Directors on 29 March 2022 and signed on its behalf by:

"David Crawford"
Director

The accompanying notes on pages 12 to 28 are an integral part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Share Capital US$'000	Share Premium US$'000	Cash Flow Hedge Reserve US$'000	Retained Earnings/ Accumulated (Losses) US$'000	Total US$'000
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**
Balance, 1 January 2021	**640,979**	**609,098**	**44,294**	**(333,415)**	**960,956**
Profit for the year	-	-	-	**475,201**	**475,201**
Other comprehensive expense	-	-	**(291,947)**	-	**(291,947)**
Dividends paid	-	-	-	**(15,000)**	**(15,000)**
Balance, 31 December 2021	**640,979**	**609,098**	**(247,653)**	**126,786**	**1,129,210**

The accompanying notes on pages 12 to 28 are an integral part of the financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 December 2021

	Note	2021 US$'000	2020 US$'000
CASH PROVIDED BY /(USED IN):			
Operating activities			
Profit / (Loss) Before Tax		**812,351**	(560,818)
Adjustments for:			
Depletion, depreciation and amortisation	*13*	**455,913**	372,831
Exploration and evaluation expenses	*12*	**156**	1,450
Impairment (reversal)/charge of oil & gas assets	*15*	**(465,271)**	681,588
Loan fee amortisation	*8*	**35,343**	9,457
Revaluation of financial instruments		**8,261**	(442)
Reduction in deferred consideration		**(8,250)**	(4,484)
Gain on acquisition		**(10,454)**	-
Hedging resets		**(115,362)**	155,044
Accretion	*8*	**38,348**	43,397
Bank interest & charges	*8*	**120,891**	111,847
Financial instrument put premiums	*8*	**49,082**	68,557
Cashflow from operations		**921,008**	878,427
Changes in inventory, receivables and payables relating to operating activities		**81,965**	4,055
Corporation tax paid		**(10,004)**	(65,155)
Net cash from operating activities		**992,969**	817,327
Investing activities			
Capital expenditure		**(236,843)**	(108,811)
Reverse consideration on acquisition	*19*	**56,456**	-
Deposit for acquisition		**(7,000)**	-
Contingent consideration payment		-	(56,900)
Decommissioning expenditure		**(27,930)**	(25,516)
Changes in receivables and payables relating to investing activities		**(32,763)**	(33,250)
Net cash used in investing activities		**(248,080)**	(224,477)
Financing activities			
Loan repayment		**(795,000)**	(1,035,000)
Loan drawdown		**254,999**	700,000
Bank interest & charges	*8*	**(120,892)**	(111,847)
Financial instrument put premiums	*8*	**(49,082)**	(68,557)
Dividend payment		**(15,000)**	(120,000)
Changes in receivables and payables relating to financing activities		**21,861**	28,986
Net cash used in financing activities		**(703,114)**	(606,418)
Currency translation differences relating to cash		**1,871**	(288)
Increase/(decrease) in cash & cash equivalents		**43,646**	(13,856)
Cash and cash equivalents, beginning of period		**1,203**	15,059
Cash and cash equivalents, end of period		**44,849**	1,203

The accompanying notes on pages 12 to 28 are an integral part of the financial statements.

Notes to the Financial Statements

1. NATURE OF OPERATIONS

Ithaca Energy Limited (the “Group” or “Ithaca”), is 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. Historical cost is generally based on the fair value consideration given in exchange for the assets.

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 2022 compared with 2021;
- RBL liquidity headroom of almost $575m ($350m drawn versus $925m available), plus $45m cash as at March 2022; and
- A material hedge position which reduces exposure to price uncertainty – over 65% of total 2022 production is hedged.

The directors closely monitor the funding position of the Group throughout the year including monitoring continued compliance with covenants as described in note 16, 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 the next 12 months:

- 10% decrease in production
- average sales price of $55/bbl and 50p/therm with no change to opex and capex
- 10% increase in capex and opex

Based on their assessment of the Group's financial position to the period 31 December 2023, the company's directors believe that the Group will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

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

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

Under Article 105(11) of the Companies (Jersey) Law 1991, the Directors of a holding company need not prepare separate financial statements (i.e. Company only financial statements). Separate financial statements for the Company are not prepared unless required to do so by the members of the Company by ordinary resolution. The members of the Company had not passed a resolution requiring separate financial statements and, in the directors' opinion, the Company meets the definition of a holding company. As permitted by law, the Directors have elected not to prepare separate financial statements.

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.

Transactions assessed as asset acquisitions are accounted for as follows.

- individual assets and liabilities are measured on initial recognition in line with the applicable accounting policy for the respective account balance
- the residual amount is allocated to assets that are measured at cost on initial recognition on a pro rata basis based on estimated fair value

In the event the consideration paid/received exceeds the assets/liabilities acquired as measured as set out above, the difference is recognised as a gain in the profit and loss in line with IFRIC 1.

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 i.e. 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.

Tariff income is recognised as the underlying commodity is shipped through the pipeline network based on established tariff rates.

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.

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.

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 25 to 27.

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.

Inventories - hydrocarbon and materials

Inventories of materials and hydrocarbon inventory supplies are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on the first-in, first-out method. Current hydrocarbon inventories are stated at net realisable value, which is based on estimated selling price less any further costs expected to be incurred to completion and disposal/sale. Non-current oil and gas inventories are stated at historic cost.

Lifting or offtake arrangements for oil and gas produced in certain of the Group's oil and gas properties are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative volume sold less inventory is an "underlift" or "overlift" and at fair value. Movements during an accounting period are adjusted through cost of sales in the statement of income.

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.

Financial liabilities measured at amortised cost

All other financial liabilities are initially recognised at fair value, net of directly attributable transaction costs. For interest-bearing loans and borrowings this is typically equivalent to the fair value of the proceeds received, net of issue costs associated with the borrowing. After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised in interest and other income and finance costs respectively. This category of financial liabilities includes trade and other payables and finance debt.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

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 and administrative 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 approved 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. In addition where the E&E asset forms part of an existing development and production CGU, such E&E activity is included in the carrying value of the Group's D&P assets. If after completion of evaluation activities in an area, it is not possible to determine technical feasibility and commercial viability or if the legal right to explore expires or if the Group decides not to continue exploration and evaluation activity, then the costs of such unsuccessful exploration and evaluation are written off to the statement of income in the period the relevant events occur.

Oil and gas expenditure – development and production assets

Capitalisation

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

Depreciation

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

Impairment

For impairment review purposes the Group's oil and gas assets are analysed into cash-generating units ("CGUs") as identified in accordance with IAS 36. Individual assets are grouped into CGU's for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. This grouping is based on a number of factors which include the infrastructure required to operate the asset, management operating plans (including consideration of hub strategies), internal management reporting, geographic location and operating licences. CGUs are identified consistently from period to period, unless a change is justified. 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.

A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount is increased to the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation had no impairment loss been recognised in previous years.

Non oil and natural gas operations

Non oil and gas assets are initially recorded at cost and depreciated over their estimated useful lives on a straight line basis as follows -

Buildings	10 years
Computer and office equipment	3 years
Furniture and fittings	5 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. Liabilities for decommissioning are recognised when the Group has an obligation to plug & abandon a well, dismantle and remove a facility or an item of plant and restore the site on which it is located, and when a reliable estimate can be made. Where an obligation exists for a new facility or well, such as oil & gas production or transportation facilities. The obligation arises when the asset is installed or the ground/environment is disturbed at the field location the amount recognised is the present value of the estimated future expenditure determined in accordance with the local regulations and requirements. 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.

Deferred Petroleum Revenue Tax (PRT) assets are recognised where PRT relief on future decommissioning costs is probable.

Leases

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

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

The Group's right-of-use assets are included in Property, Plant and Equipment (Note 13).

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

The Group's lease liabilities are included in Net finance costs and Other liabilities (Notes 8 and 20).

Maintenance expenditure

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

New and amended IFRS Standards that are effective for the current year

In the current year, the Group adopted the following amendments to international financial reporting standards as issued by the IASB.

- *Interest Rate Benchmark Reform - Amendments to IFRS 9/IAS 39 and IFRS 7*

The Group entered into a new RBL facility with an interest rate linked to SONIA. This replaced the old RBL which had a LIBOR based interest rate. The Group has one interest rate swap at year end which was not impacted by the transition away from the LIBOR benchmark.

- *COVID-19 Related Rent Concessions beyond 30 June 2021 - Amendment to IFRS 16*

The adoption of this amendment has not had an impact on the financial statements.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

IFRS 17 (including the June 2020 Amendments to IFRS 17)	Insurance Contracts
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment—Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Definition of Accounting Estimates

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

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 requires critical judgement, factors such as the availability of geological and engineering data, reservoir performance data, and drilling of new wells all impact on the determination of the Group's estimates of its oil and gas reserves and result in different future production profiles affecting prospectively the discounted cash flows used in impairment testing. These are based on an annual third party expert's view and these volumes 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. For the purposes of depletion and decomissioning estimates the Group use proved and probable reserves and for the purposes of the impairment tests performed, the Group considers the same probable and proved reserves as well as risked resource volumes. These risking adjustments are reflective of the Group's progress of the overall field development and are reflective of a market participant view.

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. When performing impairment tests of oil and gas assets, these can be considered on a pre or post tax basis. In respect of the fields where the associated deferred tax liability has been recognised as part of a business combination, this assessment is performed on a pre-tax basis and the associated deferred tax liability is included in the Group's goodwill impairment assessment. Where the associated deferred tax liability has been generated as a result of timing differences, this assessment is performed on a post-tax basis. 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 that are considered to be a best estimate of what a market participant would use; discount rates which reflect management's estimate of a market participant post tax weighted average cost of capital; and commercial reserves. 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. Furthermore, there is also uncertainty due to climate change and the speed of the energy transition and the likely impact this will have on both oil and gas demand for forecast prices. The Group have considered climate adjusted price curves in their assessment of forecast commodity prices. For further details regarding the estimate value, inputs and assumptions please refer to notes 13 and 15.

Decommissioning provision estimates

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. Expected timing of expenditure can also change, for example in response to changes in laws & regulations or their interpretation, and/or due to changes in commodity prices. The payment dates are uncertain and depend on the production life of the respective fields. A nominal discount rate of 2.5% (2020: 3%) is used to discount the estimated costs. A variation in this discount rate of 1% would change the decommissioning liabilities by approximately $202 million (2020: $211 million). For further details regarding the estimate value, inputs and assumptions please refer to note 19.

Significant accounting judgements and estimation uncertainties (continued)

Taxation judgement
The Group's operations are subject to a number of specific tax rules which apply to exploration, development and production. In addition, the tax provision is prepared before the relevant companies have filed their tax returns with the relevant tax authorities and, significantly, before these have been agreed. As a result of these factors, the tax provision process necessarily involves the use of a number of estimates and judgements including those required in calculating the effective tax rate. The Group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the likelihood of future taxable profits and the amount of deferred tax that can be recognised. For further details regarding the estimate value, inputs and assumptions please refer to note 23.

4. SEGMENTAL REPORTING

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

5. REVENUE

	2021 US$'000	2020 US$'000
Oil sales	856,492	584,960
Gas sales	724,527	172,152
NGL sales	52,466	36,219
Other income	32,742	9,638
Realised (loss) / gains on oil derivative contracts	(48,833)	257,623
Realised (loss) / gains on gas derivative contracts	(147,348)	115,533
	1,470,046	1,176,125

No significant judgments have been made in determining the timing of satisfaction of performance obligations, the transactions price and the amounts allocated to performance obligations.

6. ROYALTIES

	2021 US$'000	2020 US$'000
Royalties	(6,192)	(1,999)

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

7. ADMINISTRATIVE EXPENSES

	2021 US$'000	2020 US$'000
General & administrative	(14,246)	(17,504)
Non-recurring costs	-	(19,300)
	(14,246)	(36,804)

Non-recurring costs incurred in 2020 relate to the redundancy costs post an Employee Voluntary Redundancy programme.

Employee benefit expense	2021 US$'000	2020 US$'000
Wages and salaries	(33,167)	(46,992)
Social security costs	(23,815)	(32,445)
Pension costs	(10,605)	(14,361)
	(67,587)	(93,798)

8. NET FINANCE COSTS

	2021 US$'000	2020 US$'000
Bank interest and charges	(41,372)	(55,133)
Senior notes interest	(74,677)	(47,131)
Loan fee amortisation	(35,343)	(9,457)
Accretion	(38,348)	(43,397)
Put premiums	(41,806)	(68,557)
Realised losses on interest derivative contracts	(7,276)	(5,277)
Interest income	11	39
Other	(4,853)	(4,307)
	(243,664)	(233,220)

Notes to the Financial Statements (continued)

9. ACCOUNTS RECEIVABLE

	2021 US$'000	2020 US$'000
Trade debtors	**124,255**	92,776
Accrued income	**104,035**	16,437
	228,290	109,213

The Group regularly monitors all customer receivable balances outstanding in excess of 90 days for expected credit losses. As at 31 December 2021, 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 2021 (31 December 2020: $nil).

Non-current	2021 US$'000	2020 US$'000
Decommissioning reimbursement	**152,184**	215,994

Current	2021 US$'000	2020 US$'000
Decommissioning reimbursement	**94,640**	28,836

The decommissioning reimbursement represents the equal and opposite of decommissioning liabilities (note 19), net of notional tax, associated with the Heather and Strathspey fields.

As part of the terms of the Chevron North Sea Limited 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 as a reimbursement asset.

10. DEPOSITS, PREPAID EXPENSES & OTHER RECEIVABLES

Current	2021 US$'000	2020 US$'000
Prepayments	**8,524**	6,947
Decommissioning securities	**2,012**	3,266
	10,536	10,213

11. INVENTORY

Current	2021 US$'000	*Restated* 2020 US$'000
Hydrocarbon inventory	**115,743**	53,696
Materials inventory	**61,876**	52,996
	177,619	106,692

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

A reclassification between inventory and trade and other payables of $11.5 million was made on the balance sheet at 31 December 2020 relating to materials held at partner operated sites.

12. EXPLORATION AND EVALUATION ASSETS

	US$'000
At 1 January 2020	47,428
Additions	19,261
Acquisitions	5,350
Write offs/relinquishments	(1,450)
At 31 December 2020 and 1 January 2021	70,589
Additions	**45,922**
Write offs/relinquishments	**(156)**
At 31 December 2021	**116,355**

Following completion of geotechnical evaluation activity, certain North Sea licences were declared unsuccessful and certain prospects were declared non-commercial. This resulted in the carrying value of these licences being fully written off to nil with $0.2 million being expensed in the period to 31 December 2021 (2020: $1.5 million).

Notes to the Financial Statements (continued)

13. PROPERTY, PLANT & EQUIPMENT

	Right of use operating assets US$'000	Development & Producing assets US$'000	Other fixed assets US$'000	Total US$'000
Cost				
At 1 January 2020	13,139	5,257,729	22,417	5,293,285
Additions	-	232,295	2,880	235,175
Reclassification	-	6,441	(6,441)	-
At 31 December 2020 and 1 January 2021	13,139	5,496,465	18,856	5,528,460
Additions	**2,512**	**341,713**	**21,437**	**365,662**
Disposals	**(6,441)**	**-**	**-**	**(6,441)**
At 31 December 2021	**9,210**	**5,838,178**	**40,293**	**5,887,681**
DD&A and Impairment				
At 1 January 2020	-	(2,092,376)	(4,681)	(2,097,057)
DD&A charge for the period	(6,257)	(362,980)	(3,594)	(372,831)
Impairment charge (note 15)	-	(474,859)	-	(474,859)
At 31 December 2020 and 1 January 2021	(6,257)	(2,930,215)	(8,275)	(2,944,747)
DD&A charge for the period	**(5,613)**	**(444,751)**	**(5,549)**	**(455,913)**
Disposals	**6,441**	**-**	**-**	**6,441**
Impairment reversal (note 15)	**-**	**465,271**	**-**	**465,271**
At 31 December 2021	**(5,429)**	**(2,909,695)**	**(13,824)**	**(2,928,948)**
NBV at 1 January 2020	13,139	3,165,353	17,736	3,196,228
NBV at 1 January 2021	6,882	2,566,250	10,581	2,583,713
NBV at 31 December 2021	**3,781**	**2,928,483**	**26,469**	**2,958,733**

14. GOODWILL

	2021 US$'000	2020 US$'000
Balance at 1 January	**722,075**	928,804
Impairment	**-**	(206,729)
Balance at 31 December	**722,075**	722,075

Goodwill of $805.3 million was recognised in 2019 on the acquisition of Ithaca Oil & Gas Limited. This goodwill arose as the result of recognising a $868m deferred tax liability as required under IFRS 3 fair value accounting for business combinations. Absent the technical offset to deferred tax liability a bargain of $63 million would have been recognised. This goodwill was impaired in 2020 by $206.7 million. The remaining $123.5 million balance of goodwill relates to the 2014 Summit acquisition.

There is no indication of impairment in 2021.

15. IMPAIRMENT REVERSAL/(CHARGE) ON OIL & GAS ASSETS

	2021 US$'000	2020 US$'000
D&P Assets	**465,271**	(474,859)
Goodwill (note 14)	**-**	(206,729)
North Sea oil and gas assets	**465,271**	(681,588)

During 2021, the Group recorded a $465 million pre-tax impairment reversal (2020: $475 million charge) relating to oil and gas assets.

An impairment review was carried out at the end of both 2Q and 3Q 2021 driven by the higher forward curve for both oil and gas prices resulting in reversals of $408.1 million, being $397.3m on Stella and $10.8m on Alba. In addition to these impairment reviews performed an annual review of all oil and gas assets and goodwill was performed in 4Q 2021. 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 9.5%, resulting in pre tax reversals of $18m on the Alba CGU and $33m on Pierce. The post tax recoverable amount as at 31 December 2021 was $77m for the Alba CGU, $120m for Pierce and $565m for Stella. The remaining reversal of $6 million relates to revisions to decommissioning estimates for assets which have previously been fully impaired.

The following assumptions were used at 4Q 21 in developing the cash flow model and applied over the expected life of the respective fields:

	Discount rate assumption	Price assumptions 2022	2023	2024	2025	2026
Oil	9.50%	$76/bbl	$69/bbl	$71/bbl	$72/bbl	$74/bbl
Gas	9.50%	164p/therm	99p/therm	68p/therm	61p/therm	56p/therm

* post 2026 an annual 2% increase is applied to the price assumption

The following assumptions were used at Q3 21 in developing the cash flow model and applied over the expected life of the respective fields:

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

15. IMPAIRMENT REVERSAL/(CHARGE) ON OIL & GAS ASSETS (CONTINUED)

The following assumptions were used at Q2 21 in developing the cash flow model and applied over the expected life of the respective fields:

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

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.

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

At 31 December 2020, impairment reversals of $531.2m were made. This was 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 had already ceased production.

The recoverable amount of the operating segment, being North Sea D&P assets, is $6,840 million (2020: $4,827 million).

A movement of 1% on the discount rate does not result in a significant change in the portfolio value, such that headroom remains on both goodwill and all of the PP&E CGU's, with the exception of Alba, where the reversal of $18 million recorded at 4Q21 would be reduced by $4 million. A decrease in the price deck of 20% would result in a post tax impairment of $363.1 million.

16. BORROWINGS

Non-current	2021 US$'000	2020 US$'000
RBL facility	(350,000)	(720,000)
Senior unsecured notes	(625,000)	(500,000)
Long term bank fees	13,214	21,157
Long term senior notes fees	7,170	11,960
Total debt (excluding equity type subordinated debt)	(954,616)	(1,186,883)
Parent company Delek (equity type subordinated debt)	-	(250,000)
Total debt	(954,616)	(1,436,883)

Refinancing

RBL Facility
Following the refinancing program to amend and extend the RBL facility in July 2021, RBL availability is approximately $1.225 billion with a maturity to 2026. Loan fees of $13.2 million relating to the RBL have been capitalised and remain to be amortised.

As part of the transaction the previous RBL was repaid in full and fees of $18.1 million have been expensed during the year.

Senior Notes
In July 2021, the Group completed the refinancing of its senior unsecured notes with the issuance of $625 million 9.375% senior unsecured notes due July 2026. Loan fees of $7.2 million relating to the senior notes have been capitalised and remain to be amortised.

In line with the RBL transaction, the previous senior notes were repaid in full and fees of $37.9 million have been expensed during the year.

The RBL facility incurs interest at a reference rate LIBOR plus 3.5%. The previous facility incurred interest at LIBOR plus a margin of 3%-4%. The termination of the previous facility during the year has resulted in the IFRS 7, IFRS 9 and IAS39 Interest rate benchmark reform not impacting the group in the current year.

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

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

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

Notes to the Financial Statements (continued)

16. BORROWINGS (CONTINUED)

The key financial covenants in the RBL are:

- The Parent shall ensure that as at the end of each Relevant Period (starting with the Relevant Period ending on 30 November 2021) the ratio of Net Debt to EBITDAX shall be less than 3.5:1 "Net debt" referred to is not prescribed by IFRS. The Company uses net drawn debt as a measure to assess its financial position. Net drawn debt includes amounts outstanding under the Company's debt facilities and senior notes, less cash and cash equivalents. Subordinated debt of $250m from Delek Group Limited which was repaid on 3 August 2021 was ranked with equity.
- 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 $625m unsecured notes.

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

17. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Non-current interest bearing loans and borrowings (note 16 and 20)

	2021 US$'000	2020 US$'000
At 1 January 2021	**(1,436,883)**	(1,763,984)
Net cash flows	**540,001**	335,000
Bank fee	**(35,343)**	(7,899)
Other	**(22,391)**	-
	(954,616)	(1,436,883)

Financing cashflows from leasing arrangements disclosed in note 20.

18. TRADE AND OTHER PAYABLES

	2021 US$'000	*Restated* 2020 US$'000
Trade payables	**(201,556)**	(96,211)
Amounts owed to parent	**(28,941)**	(13,896)
Current tax payable	**-**	(9,964)
Accruals and deferred income	**(238,147)**	(151,134)
	(468,644)	(271,205)

A reclassification between inventory and trade and other payables of $11.5 million was made on the balance sheet at 31 December 2020 relating to materials held at partner operated sites.

19. DECOMMISSIONING LIABILITIES

	2021 US$'000	2020 US$'000
Balance, beginning of period	**(1,416,236)**	(1,194,607)
Addition	**(55,429)**	-
Accretion	**(42,502)**	(47,844)
Revision to estimates	**(175,190)**	(203,506)
Decommissioning provision utilised	**47,868**	29,721
Balance, end of period	**(1,641,489)**	(1,416,236)

The total future decommissioning liability was calculated by management based on its net ownership interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. The Group uses a discount rate of 2.5 percent (31 December 2020: 3.0 percent) and an inflation rate of 2.0 percent (31 December 2020: 2.0 percent) over the varying lives of the assets to calculate the present value of the decommissioning liabilities. These costs are expected to be incurred at various intervals over the next 18 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.

The estimated 2022 decommissioning spend of $95 million has been treated as a current liability as at 31 December 2021 (2020: $ 29 million).

The addition to the decommissioning liability arose on the Group's acquisition of an additional equity interest of 13.3% in Alba on the 30th of November 2021 for consideration of $56 million, with the resulting gain of $10.4 million being recorded in the income statement. The Group accounted for this as an asset acquisition in the period.

20. OTHER LIABILITIES

Current	2021 US$'000	2020 US$'000
Lease liability	**(3,211)**	(6,080)
Petrofac deferred consideration	**(49,806)**	-
Balance, end of period	**(53,017)**	(6,080)

Non-Current	2021 US$'000	2020 US$'000
Lease liability	**(278)**	(912)
Petrofac deferred consideration	**(5,804)**	(52,914)
Balance, end of period	**(6,082)**	(53,826)

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

20. OTHER LIABILITIES (CONTINUED)

Lease liability

	Total US$'000
At 1 January 2020	(13,139)
Interest	(587)
Payments	6,734
At 31 December 2020 and 1 January 2021	**(6,992)**
Interest	**(367)**
Payments	**3,870**
At 31 December 2021	**(3,489)**
Current	**(3,211)**
Non-current	**(278)**
	(3,489)

The lease liability at 31 December 2021 relates to the Captain FPSO. The office lease, acquired in 2019 as part of the acquisition of CNSL, was repaid in full in 4Q21. The incremental borrowing rate applied to these leases is 5.83% (2020: 5.83%).

21. CONTINGENT CONSIDERATION

Current	**2021 US$'000**	2020 US$'000
Balance outstanding	**-**	(8,250)

As part of the GSA transaction, Petrofac had the opportunity to earn up to an additional $25 million dependent on the future performance of the Stella and Harrier fields. $8.25 million was released during Q1 21 in accordance with the Petrofac SPA.

Non-current	**2021 US$'000**	2020 US$'000
Balance outstanding	**(19,480)**	(5,950)

The non-current contingent consideration balance relates to the acquisition of the Vorlich and Austen fields, with a remaining amount payable upon Austen FDP submission of $0.6 million and subsequent payment of $3.0 million due upon defined production criteria being met. The remainder of the balance relates to Yeoman. The movement of $13.5 million in the year relates to additional consideration payable on Strathspey in accordance with the sale and purchase agreement.

22. SHARE CAPITAL

Authorised share capital	**Number of common shares**	**Amount US$'000**
At 31 December 2020 and 31 December 2021	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 2020 and 31 December 2021	64,097,908,167	640,979

(b) Share premium

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

23. TAXATION

	2021 US$000	2020 US$000
Current tax		
Current corporation tax credit / (charge)	**14,863**	(384)
Current corporation tax credit / (charge) - prior year	**3,815**	-
Total current tax credit / (charge)	**18,678**	(384)
Deferred tax		
Group tax (charge) / credit in Statement of Income	**(387,982)**	159,354
Group tax credit / (charge) in Statement of Other Comprehensive Income	**194,632**	(11,368)
Total deferred tax (charge) / credit	**(193,350)**	147,986
Deferred Petroleum Revenue Tax		
Deferred PRT credit in Statement of Income	**32,154**	-
Total Tax (charge) / credit through Statement of Income	**(337,150)**	158,970

23. TAXATION (CONTINUED)

Deferred tax	2021 US$000	2020 US$000
Deferred tax		
Relating to the origination and reversal of temporary differences	(192,136)	134,340
Adjustment in respect of prior periods	(1,214)	13,646
Total tax (charge)/credit	(193,350)	147,986

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

	2021 US$000	2020 US$000
Accounting (profit)/loss before tax	(812,351)	560,818
At tax rate of 40% (2020: 40%)	(324,940)	224,327
Non-deductible expense	(52,312)	(27,769)
Impairment of goodwill	-	(82,599)
Financing costs not allowed for SCT	(2,499)	(1,717)
Ring Fence Expenditure Supplement	11,313	28,894
Deferred tax effect of investment allowance	9,735	5,783
Over provided in prior years	2,602	13,263
Net deferred PRT	19,293	-
Unrecognised tax losses	(342)	(1,212)
Total tax (charge) / credit recorded in the consolidated statement of income	(337,150)	158,970

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

Deferred tax at 31 December 2021 relates to the following:

	2021 US$000	*Restated* 2020 US$000
Deferred corporation tax liability	(688,140)	(536,735)
Deferred corporation tax asset	876,904	918,849
Deferred PRT asset	32,154	-
Net deferred tax asset	220,918	382,114

The gross movement on the deferred tax account is as follows:	2021 US$000	2020 US$000
At 1 January	382,114	234,128
Income statement (charge)/credit	(355,828)	158,970
Other comprehensive income credit/(charge)	194,632	(11,368)
At 31 December	220,918	382,114

Deferred corporation tax liabilities	Deferred corporation tax on deferred PRT US$000	Accelerated tax depr'n US$000	*Restated* Total US$000
At 1 January 2021	-	(536,735)	(536,735)
Prior year adjustment	-	(15,813)	(15,813)
Origination and reversal of temporary differences	(12,861)	(122,731)	(135,592)
At 31 December 2021	(12,861)	(675,279)	(688,140)

Deferred corporation tax assets	Abandonment provision US$000	Tax Losses US$000	Other US$000	*Restated* Total US$000
At 1 January 2021	173,452	718,456	26,941	918,849
Prior year adjustment	-	14,599	-	14,599
Origination and reversal of temporary differences	24,214	(232,773)	152,015	(56,544)
At 31 December 2021	197,666	500,282	178,956	876,904

Deferred PRT asset	Total $000
At 1 January 2021	-
Income statement credit	32,154
At 31 December 2021	32,154

Deferred corporation 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 $1,251 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 $51 million, which are included in the calculation of accelerated tax depreciation above, giving a total pool of losses and allowances of $1,302 million, all of which have been recognised.

Included within the other deferred tax assets are accumulated losses related to derivative contracts.

Notes to the Financial Statements (continued)

23. TAXATION (CONTINUED)

Included within the deferred tax liability of $688.1 million is an asset of $90.0 million relating to Investment Allowance, all of which is activated so can be utilised upon completion of future field developments and income generation.

The carrying value of the net deferred corporation tax asset at 31 December 2021 of $188.8 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.

A deferred PRT asset of $32.2 million has been recognised in anticipation that decommissioning losses will be carried back to historical periods when PRT was paid.

24. COMMITMENTS

	2021 US$'000	2020 US$'000
Capital commitments		
Capital commitments incurred jointly with other venturers (Ithaca's share)	**83,368**	65,519

25. FINANCIAL INSTRUMENTS

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

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

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

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

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

The following table presents the Group's material financial instruments measured at fair value for each hierarchy level as of 31 December 2021:

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total Fair Value US$'000
Contingent consideration (note 21)	-	-	**(19,480)**	**(19,480)**
Derivative financial instrument asset	-	**4,949**	-	**4,949**
Derivative financial instrument liability	-	**(459,143)**	-	**(459,143)**

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

	2021 US$'000	2020 US$'000
Revaluation of forex forward contracts	**1,448**	3,504
Revaluation of commodity hedges	**(9,709)**	(3,696)
	(8,261)	(192)
Realised loss on forex contracts	**-**	(2,300)
Realised gain on commodity hedges	**7,808**	2,006
	7,808	(294)
Total loss on financial instruments	**(453)**	(486)

Cash flow hedge

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

Cash flow hedges	2021 US$'000	2020 US$'000
Revaluation of derivative contracts	**(371,213)**	(125,989)
Realised (loss)/gain on derivative contracts	**(360,629)**	453,731
Amounts recycled to revenue	**196,181**	(373,156)
Amounts recycled to finance costs	**49,082**	73,834
Total (loss)/gain	**(486,579)**	28,420

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

25. FINANCIAL INSTRUMENTS (CONTINUED)

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 22 - Dec 22	2,080,500 bbls	$64/bbl
Oil swaps	Jan 22 - Dec 23	4,851,984 bbls	$56/bbl
Oil collars	Jan 22 - Dec 23	3,558,750 bbls	$58/bbl floor - $80/bbl ceiling
Gas swaps	Jan 22 - Dec 22	203,900,000 therms	64p/therm
Gas puts	Jan 22 - Dec 23	36,500,000 therms	40p/therm
Gas collars	Jan 22 - Dec 23	73,000,000 therms	60p/therm floor - 94p/therm ceiling

ii) Interest Risk

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

The below represents interest rate financial instruments in place:

Derivative	Term	Value	Rate
Interest rate swap	Jan 22 - 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 2021 the Group had an average of £16 million per quarter hedged at an average forward rate of $1.375 : £1 for the period January to December 2022.

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.

The Group assesses partners' creditworthiness 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 2021, 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 2021 (31 December 2020: $Nil).

The Group may be exposed to certain losses in the event that counterparties to derivative financial instruments are unable to meet the terms of the contracts. The Group's exposure is limited to those counterparties holding derivative contracts with positive fair values at the reporting date. As at 31 December 2021, exposure is $5.0 million (31 December 2020: $31.7 million).

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

v) Liquidity Risk

Liquidity risk includes the risk that as a result of its operational liquidity requirements the Group will not have sufficient funds to settle a transaction on the due date. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities, and by considering medium and future requirements by continuously monitoring forecast and actual cash flows. The Group considers the maturity profiles of its financial assets and liabilities. As at 31 December 2021, substantially all accounts payable are current.

The following table shows the timing of cash outflows relating to liabilities.

	Within 1 year US$'000	1 to 5 years US$'000
Accounts payable and accrued liabilities	**(468,644)**	**-**
Derivatives	**(419,171)**	**(39,971)**
Other long term liabilities	**(53,017)**	**(6,082)**
Borrowings	**-**	**(954,616)**
	(940,832)	**(1,000,669)**

Notes to the Financial Statements (continued)

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2021 US$'000	2020 US$'000
Oil swaps - cash flow hedge	**(102,703)**	(77,081)
Oil collars - cash flow hedge	**(6,542)**	10,805
Oil puts - cash flow hedge	**(9,402)**	-
Gas swaps - cash flow hedge	**(264,345)**	(1,420)
Gas puts - cash flow hedge	**(3,317)**	(5,401)
Gas collars - cash flow hedge	**(66,007)**	-
Interest rate swaps	**133**	(7,877)
FX forwards	**(2,010)**	6,820
	(454,193)	(74,154)

27. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments of the Group consist mainly of cash and cash equivalents, receivables, payables, loans and financial derivative contracts, all of which are included in these financial statements. At 31 December 2021, the classification of financial instruments and the carrying amounts reported on the balance sheet and their estimated fair values are as follows:

	2021 US$'000		2020 US$'000	
Classification	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents (Held for trading)	**44,849**	**44,849**	1,203	1,203
Derivative financial instruments (Held for trading)	**4,949**	**4,949**	31,748	31,748
Deposits	**10,536**	**10,536**	10,213	10,213
Bank debt (Loans and Receivables)	**(954,616)**	**(954,616)**	(1,186,883)	(1,186,883)
Contingent consideration	**(19,480)**	**(19,480)**	(14,200)	(14,200)
Derivative financial instruments (Held for trading)	**(459,143)**	**(459,143)**	(105,903)	(105,903)
Other long term liabilities	**(6,082)**	**(6,082)**	(53,826)	(53,826)

28. RELATED PARTY TRANSACTIONS

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

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

	Country of incorporation	**% equity interest at 31 Dec 2021**	2020
Ithaca Energy (UK) Limited	Scotland	**100%**	100%
Ithaca Minerals (North Sea) Limited	Scotland	**100%**	100%
Ithaca Energy (Holdings) Limited	Bermuda	**100%**	100%
Ithaca Energy Holdings (UK) Limited	Scotland	**100%**	100%
Ithaca Energy (North Sea) PLC	Scotland	**100%**	100%
Ithaca Oil and Gas Limited	England and Wales	**100%**	100%
Ithaca Petroleum 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.

The following table provides the loan balances with related parties as of 31 December 2021 and 31 December 2020:

Loans due to related parties	2021 US$'000	*Restated* 2020 US$'000
Delek Group Limited	**(28,941)**	(263,896)

A reclassification between related parties and trade and other payables of $13.9 million was made on the balance sheet at 31 December 2020 relating to interest on the Delek Group Limited loan.

The following table provides remuneration provide to key management personnel for the years 31 December 2021 and 31 December 2020:

Key management personnel	2021 US$'000	2020 US$'000
Aggregate remuneration	**3,247**	6,436
Company pension contributions	**155**	302
	3,402	6,738

29. SUBSEQUENT EVENTS

On 2 November 2021 an agreement was signed to acquire 100% of the share capital of Marubeni Oil & Gas UK Limited for $140 million base consideration, $70 million (adjusted for interim period cashflows) payable on completion and $70 million of which, is deferred to 2025. There are further contingent payments in the future should certain milestones be achieved related to future development activities. The sale and purchase agreement completed on 4 February 2022 and gives Ithaca non operated working interests in the Repsol Sinopec operated MonArb assets and CNR operated Columba assets which will contribute approx. 7 kboe/d to production in 2022.

Full disclosure of the purchase price allocation as required by IFRS3 - Business Combinations has not been included in this set of financial statements because the purchase price allocation is ongoing. A provisional purchase price allocation will be included with the Q1 2022 results published at the end of May.

The Group signed a Sale and Purchase Agreement for the acquisition of Summit Exploration & Production Limited which was based on an enterprise value of $148 million. Taking into account cash of $70m and other adjustments, headline consideration is $224m. The transaction has an economic date of 1 January 2021 and is subject to normal completion activities including gaining consent from the North Sea Transition Authority (formerly the Oil and Gas Authority).

On 27 February 2022, a conflict broke out between Russia and Ukraine. Following this, numerous governments around the world have implemented sanctions against Russia and Belarus. The Directors have considered the implications of the ongoing conflict on key assumptions and judgments. This consideration has been made on the recognition and measurement of accounting estimates and the related financial statements disclosure. The assessment included specific review of the supply chain; funding sources; customer; credit risk; cyber security; shareholders; and register of bondholders.

With the exception of the customer agreement with Gazprom Marketing & Trading Limited for the sale of Vorlich gas, which the Group have chosen to terminate with effect from 30 September 2022, the Directors do not consider there to be any significant impact on the Group at this stage.