ITHACA ENERGY PLC

Q3 2022 RESULTS & TRADING UPDATE

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HIGHLIGHTS – YTD SEPTEMBER 2022

68 KBOE/D

YTD PRODUCTION

$19/BOE

YTD UNIT OPEX

$1,438M

YTD EBITDAX

$1,392M

YTD PROFIT AFTER TAX

$1.14B

30 SEPTEMBER 2022
NET DEBT

Corporate highlights

- Completion of the acquisition of assets from Marubeni Oil & Gas UK Limited in Q1 2022 and Summit Exploration and Production Limited ("Summit E&P") and Siccar Point Energy (Holdings) Limited ("Siccar Point Energy") in Q2 2022 adding material production, reserves and resources to the asset portfolio. Acquisition activity in H1 2022 was transformational for the company and will contribute significantly to the Group's future growth strategy.
- On 9 November 2022, the Group successfully completed its listing on the premium segment of the main market of the London Stock Exchange, with unconditional trading commencing on 14 November 2022.

Operational highlights

- Production of 68.2 thousand barrels of oil equivalent per day ("kboe/d"), 65% liquids for the year to date.
- During the month of September 2022, Captain Enhanced Oil Recovery Stage I project reached a significant milestone of 10 million barrels of oil production through the polymerflood enhanced oil recovery method.
- On 20 October 2022, first oil was achieved from the Abigail subsea tieback to the FPF-1 floating production unit in the Greater Stella area.
- On 6 November, the Erskine asset achieved the milestone of achieving 25 years of oil and gas production. The gas condensate field started production in 1997.

Financial highlights (unaudited)

- Profit after tax of $1,392 million.
- Adjusted profit after tax of $391 million (after excluding an exceptional non-cash bargain purchase credit of $1,324 million and exceptional non-cash Energy Profit Levy ("EPL") deferred tax charges of $323 million).
- Unit operating expenditure maintained at $19/boe.
- Group adjusted EBITDAX of $1,438 million.
- Net debt of $1.14 billion at 30 September 2022 lowering the Group's net debt to Group adjusted EBITDAX ratio to 0.6x.
- At 30 September 2022, 14 million barrels of oil equivalent (71% oil) hedged from Q4 2022 into 2024 at an average price floor of $65/bbl for oil and 174p/therm for gas.

Q3 TRADING UPDATE & MANAGEMENT GUIDANCE

Key Performance Indicators

	Nine months ended 30 September 2022	Year ended 31 December 2021
Serious Injury Frequency[1]	0	0
Tier 1 process safety events[2]	0	0
Group Adjusted EBITDAX ($m)[3]	1,438.4	1,035.4
Group Free Cashflow ($m)[4]	974.1	550.5
Available Liquidity ($m)[5]	399.4	619.8
Total production (BOEPD)[6]	68,246	56,486
Unit operating expenditure ($/boe)[7]	19.3	18.0
Net debt ($m)[8]	1,143.6	930.2
Net debt/Group Adjusted EBITDAX[9]	0.6x	0.9x

Notes

[1] *Serious Injury Frequency is calculated as the number of incidents per million hours worked.*

[2] *Process safety events as defined by API 465 Process Safety-Recommended Practice on Key Performance Indicators.*

[3] *Group Adjusted EBITDAX consists of profit for the period before income tax, net finance costs, put premiums on oil derivative instruments, put premiums on gas derivative instruments, revaluation of forex forward contracts, revaluation of commodity hedges, depletion, depreciation and amortisation, impairment (charge)/reversal, exploration and evaluation expenses, fair value gain/(losses) on contingent consideration, gain on bargain purchase and transaction costs. Transaction costs include costs that are not considered to be representative of underlying operations. This is used as an indicator of underlying financial performance.*

[4] *Group Free Cashflow consists of net cash flow from operating activities less net cash used in investing activities, adding back acquisition of subsidiaries net of cash acquired, less bank interest and charges and interest rate swaps, therefore representing net cash flow of the business before net proceeds of loan repayment, loan drawdown, payment for lease liabilities, bond issue, receipt from issue of equity to Delek, receipt from issue of notes to related company and acquisition of subsidiaries.*

[5] *Available Liquidity for the Group consists of the sum of cash and cash equivalents on the balance sheet and the undrawn amounts available to the Group using existing approved third-party facilities less restricted cash.*

[6] *The provided historical production volumes do not include production volumes for the assets acquired in either the Marubeni acquisition which completed on 4 February 2022 or the Siccar Point Acquisition or Summit Acquisition, which completed on 30 June 2022.*

[7] *Unit operating expenditure consists of operating costs (excluding over/underlift) including tariff expense, less tariff income and tanker costs, divided by net total production for the respective period.*

[8] *Net debt consists of amounts outstanding under RBL Facility and the senior unsecured notes, less cash and cash equivalents (and excludes all intragroup debt arrangements or liabilities represented by letters of credit or surety bonds).*

[9] *The net debt to Group Adjusted EBITDAX ratio is calculated as net debt at the end of the period divided by Group Adjusted EBITDAX for the preceding 12 months.*

Q3 2022 TRADING UPDATE

Key trading and operational updates for the three months ended 30 September 2022 are as follows:

- Working interest production averaged 71.3 kboe/d;
- Group adjusted EBITDAX of $531 million;
- Adjusted profit after tax of $158 million (after excluding exceptional EPL deferred tax charges of $323 million);
- Operating costs (operating expenditure less tariff income) of $124 million;
- Capital costs of $112 million;
- Planned shutdowns were completed on the Alba field, MonArb area and Cook field;
- The Captain EOR II topside modules were successfully installed;
- The first Captain EOR II subsea production well came online on 18 November 2022;
- The Abigail subsea field tie-back to the FPF-1 infrastructure has now been completed with first production on 20 October 2022;
- The Shell operated Pierce field is undergoing re-commissioning;
- A Company production record of 90 kboe/d was achieved in mid November 2022;
- The introduction of the Energy Profits Levy, enacted on 11 July 2022, resulted in an exceptional material non-cash deferred tax charge in the three months ended 30 September 2022 of $189 million;
- The amount drawn on the RBL Facility was reduced by $100 million to $650 million from the principal outstanding as at 30 June 2022 of $750 million and in late November the amount drawn on the RBL Facility was reduced by a further $50 million;
- The $200 million Siccar Point Energy Bonds acquired as part of the acquisition of Siccar Point Energy were redeemed in full between 1 August and 12 October 2022 ($8 million remained outstanding at 30 September 2022); and
- Pre-FID work continues on the Cambo, Rosebank, Marigold and Fotla developments to validate costs, mature engineering and progress commercial and contractual frameworks.

Q3 TRADING UPDATE & MANAGEMENT GUIDANCE CONTINUED

EBITDAX Analysis		Q3 2022		Q2 2022		Q1 2022	
Production		**kboed**	**mmboe**	**kboed**	**mmboe**	**kboed**	**mmboe**
Oil		44	4	39	4	40	4
Gas		24	2	22	2	25	2
NGL		3	0	2	0	5	0
Total Production		**71**	**7**	**63**	**6**	**71**	**6**
Revenues		**$/boe**	**$m**	**$/boe**	**$m**	**$/boe**	**$m**
Oil Revenue		97	392	116	475	100	498
Gas Revenue		195	433	103	199	177	406
Condensate Revenue		54	22	70	20	65	15
Oil & Gas Hedging Losses		(27)	(180)	(15)	(83)	(29)	(186)
Total		102	667	107	611	114	733
Movement In Oil & Gas Stocks		2	16	(11)	(62)	(19)	(124)
Tanker Costs		–	(3)	–	(5)	–	(6)
Stella Royalties		–	(3)	–	(3)	–	(3)
Total Value From Production		**103**	**677**	**95**	**541**	**93**	**600**
Costs							
Operating:	Captain	(19)	(30)	(19)	(34)	(23)	(37)
	All other assets	(19)	(91)	(20)	(80)	(17)	(83)
	Total	(19)	(121)	(20)	(114)	(19)	(120)
Routine G & A		0	0	0	0	(1)	(6)
Forex (Loss) /Gain		(4)	(25)	1	6	0	0
Total Operating Cash Costs		(22)	(146)	(19)	(108)	(19)	(126)
EBITDAX		**81**	**531**	**76**	**433**	**74**	**474**

Q4 2022 & 2023 MANAGEMENT GUIDANCE

Management confirms the previously provided guidance ranges for currently producing assets on short-term production, operating costs and capital costs as follows:

- Production
  - for the three months ending 31 December 2022: 77–80 kboe/d
  - for the year ended 31 December 2023: 72–80 kboe/d
- Operating costs
  - for the three months ending 31 December 2022: $130–$150 million
  - for the year ended 31 December 2023: $590–$680 million
- Capital costs
  - for the three months ending 31 December 2022: $100–$120 million
  - for the year ended 31 December 2023: $450–$550 million

SUBSEQUENT EVENTS

Management draws attention to the following post Balance Sheet events which were primarily related to IPO restructuring:

On 12 October 2022, the remaining Nordic Bonds totalling $8 million were redeemed at the make whole amount of 105.4%.

On 26 October 2022, Ithaca Energy Limited undertook a share capital reduction whereby 114,000,000 issued A ordinary shares of $1.00 each were cancelled and extinguished. Following this capital reduction the issued share capital of the Company was $1,103 being 1,001 A ordinary shares of $1.00 each, 100 B1 ordinary shares of $0.01 each, and 100 B2 ordinary shares of $0.01 each. In addition, on this date the existing share premium account of $634,659,000 was cancelled. A number of further steps subsequently followed including the conversion of $1.00 shares to £0.88 shares, the conversion of $0.01 shares to £0.01 shares, the issue of bonus shares and new shares to existing shareholders and the issue of 105,000,000 new shares on the Initial Public Offering (IPO). As a result the issued share capital of Ithaca Energy plc immediately post IPO was 1,005,162,217 ordinary shares of £0.01 each.

On 1 November 2022, Ithaca Energy Limited changed its name to Ithaca Energy plc.

On 2 October 2022, the Company entered into an amended agreement with the parent company, DKL Energy, to extend the repayment date of the capital loan note to 1 January 2024 or immediately upon the admission of the Company's share capital to a stock exchange.

On 8 November 2022, a waiver agreement was signed by DKL Energy, the immediate parent of Ithaca Energy plc at the time, to partially waive the Capital Note and Tracker Loan balances (including interest) totalling $469 million such that post IPO these balances would no longer be due from Ithaca Energy plc.

On 4 October 2022, the Company entered into an amendment with the parent company, DKL Energy, to extend the repayment date of the subordinated loan to 1 January 2024 or immediately upon the admission of the Company's share capital to a stock exchange.

On 4 October 2022, the Group repaid in aggregate $29.5 million of accrued and outstanding interest under, and costs payable in connection with, a $250 million unsecured term loan facility with Delek Group Ltd, thereby retiring the loan.

On 9 November 2022, Ithaca Energy plc was admitted to the premium segment of the Official List of the Financial Conduct Authority and to trading on the main market of the London Stock Exchange plc which initially valued the Group at $2.9 billion. Following this, Capital Notes to the value of $392 million and Trader Loan of $77 million was either repaid or waived by the parent company.

On 11 July 2022, the UK Government enacted a temporary windfall tax of 25% on the profits of oil and gas companies called the Energy Profits Levy (see note 6). On 17 November 2022, the UK Government announced as part of the Autumn Statement, an update to the Energy Profits Levy with further guidance to follow. As of 1 January 2023, the Energy Profits Levy rate charged on the profits of oil and gas companies, on the same basis as Ring Fence Corporation Tax excluding relief for decommissioning and finance costs, will be increased from 25% to 35% and will be extended from a sunset date of 31 December 2025 to 31 March 2028. As part of the proposed amendments to the enacted Energy Profits Levy, the UK Government announced the reduction to the Investment Allowances to 29% from 80%. Whilst still under review as guidance is not final, the company estimate that the levy will decrease the net deferred tax asset by $288 million.

UNAUDITED CONSOLIDATED STATEMENT OF INCOME

For the three and nine months ended 30 September 2022 and 2021

		Three months ended 30 September		Nine months ended 30 September	
	Note	2022 US$'000	2021 US$'000	2022 US$'000	2021 US$'000
Revenue		**662,953**	335,241	**2,000,538**	954,237
Cost of sales		**(264,815)**	(228,314)	**(1,016,850)**	(690,890)
Gross Profit		**398,138**	106,927	**983,688**	263,347
Exploration and evaluation expenses	4	**600**	–	**(8,951)**	(156)
Impairment (charge)/reversal		**7,345**	234,309	**(263)**	408,110
(Loss)/gain on financial instruments	7	**(29,810)**	(1,460)	**(48,941)**	494
Administrative expenses		**(21,144)**	(2,924)	**(47,890)**	(11,965)
Net foreign exchange		**(13,051)**	(1,601)	**(7,033)**	(585)
Gain on bargain purchase		**–**	–	**1,324,343**	–
Fair value gain on contingent consideration		**–**	–	**(14,449)**	8,250
Profit from operations before tax and net finance costs		**342,078**	335,251	**2,180,504**	667,495
Net finance costs		**(54,967)**	(100,048)	**(152,048)**	(203,986)
Profit before tax		**287,111**	235,203	**2,028,456**	463,509
Taxation	6	**(452,545)**	(124,109)	**(636,200)**	(235,420)
(Loss)/profit attributable to owners of the parent		**(165,434)**	111,094	**1,392,256**	228,089

The results above are entirely derived from continuing operations.

The accompanying notes on pages 11 to 33 are an integral part of the financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and nine months ended 30 September 2022 and 2021

		Three months ended 30 September		Nine months ended 30 September	
	Note	2022 US$'000	2021 US$'000	2022 US$'000	2021 US$'000
(Loss)/profit for the period		**(165,434)**	111,094	**1,392,256**	228,089
Items that may be reclassified to profit and loss					
Fair value gain/(loss) on cash flow hedges	7	**146,168**	(318,615)	**(120,915)**	(592,813)
Deferred tax credit on cash flow hedges	6	**75,568**	127,446	**182,401**	237,125
Other comprehensive profit/(loss)		**221,736**	(191,169)	**61,486**	(355,688)
Total comprehensive profit/(loss) attributable to owners of the parent		**56,302**	(80,075)	**1,453,742**	(127,599)

The accompanying notes on pages 11 to 33 are an integral part of the financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2022 US$'000	31 December 2021 US$'000
ASSETS			
Current assets			
Cash and cash equivalents		**139,360**	44,849
Trade and other receivables		**555,275**	228,290
Decommissioning receivable		**94,640**	94,640
Deposits and prepaid expenses		**29,361**	10,536
Inventory		**148,081**	177,619
Derivative financial instruments	8	**13,028**	4,975
		979,745	560,909
Non-current assets			
Decommissioning receivable		**94,528**	152,184
Long-term inventory		**–**	532
Exploration and evaluation assets	4	**733,154**	116,355
Property, plant & equipment	5	**3,763,598**	2,958,733
Deferred Tax Assets	6	**1,284,909**	220,918
Derivative financial instruments	8	**4,812**	133
Goodwill		**783,848**	722,075
		6,664,849	4,170,930
Total assets		**7,644,594**	4,731,839
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings		**(459,500)**	(437,076)
Trade and other payables		**(1,049,878)**	(484,268)
Decommissioning liabilities		**(94,640)**	(94,640)
Lease liability		**(45,086)**	(3,211)
Contingent and deferred consideration		**(2,350)**	(49,806)
Derivative financial instruments	8	**(547,219)**	(438,006)
		(2,198,673)	(1,507,007)
Non-current liabilities			
Borrowings		**(1,261,050)**	(954,616)
Decommissioning liabilities		**(1,569,915)**	(1,546,849)
Lease liability		**(98,664)**	(278)
Contingent and deferred consideration		**(260,645)**	(25,284)
Derivative financial instruments	8	**(125,396)**	(21,296)
		(3,315,670)	(2,548,323)
Net assets		**2,130,251**	676,509
Shareholders' equity			
Share capital		**1**	1
Share premium		**634,658**	634,658
Capital contribution reserve		**114,000**	114,000
Hedging reserve		**(186,167)**	(247,653)
Retained earnings		**1,567,759**	175,503
Total equity		**2,130,251**	676,509

The accompanying notes on pages 11 to 33 are an integral part of the financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three and nine months ended 30 September 2022 and 2021

	Share capital US$'000	Share premium US$'000	Capital contribution reserve US$'000	Cash flow hedging reserve US$'000	Retained earnings/ (accumulated losses) US$'000	Total US$'000
Balance, 1 January 2021	1	634,658	114,000	44,294	(250,486)	542,467
Profit for the period	–	–	–	–	228,089	228,089
Other comprehensive expense	–	–	–	(355,688)	–	(355,688)
Dividends paid	–	–	–	–	(15,000)	(15,000)
Balance, 30 September 2021	1	634,658	114,000	(311,394)	(37,397)	399,868
Balance, 1 January 2022	**1**	**634,658**	**114,000**	**(247,653)**	**175,503**	**676,509**
Profit for the period	**–**	**–**	**–**	**–**	**1,392,256**	**1,392,256**
Other comprehensive expense	**–**	**–**	**–**	**61,486**	**–**	**61,486**
Balance, 30 September 2022	**1**	**634,658**	**114,000**	**(186,167)**	**1,567,759**	**2,130,251**

The accompanying notes on pages 11 to 33 are an integral part of the financial statements.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOW

For the three and nine months ended 30 September 2022 and 2021

	Three months ended 30 September		Nine months ended 30 September	
	2022 US$'000	2021 US$'000	**2022 US$'000**	2021 US$'000
Cash provided by/(used in):				
Operating activities				
Profit Before Tax	**287,111**	235,203	**2,028,456**	463,509
Adjustments for:				
Depletion, depreciation and amortisation	**144,150**	103,048	**441,567**	311,807
Exploration and evaluation expenses	**813**	–	**10,363**	156
Impairment (charge)/reversal	**(7,345)**	(234,309)	**263**	(408,110)
Reduction in contingent/deferred consideration	**1,966**	–	**16,415**	(8,251)
Loan fee amortisation	**1,127**	29,503	**3,409**	34,186
Revaluation of financial instruments	**16,898**	3,619	**35,574**	5,615
Gain on bargain purchase	**–**	(25,896)	**(1,324,342)**	–
Hedging resets	**(9,789)**	–	**(30,107)**	(91,452)
Accretion	**17,561**	9,548	**41,773**	27,346
Bank interest & charges	**36,279**	46,552	**89,199**	97,180
Interest on related party loan	**–**	12,307	**17,924**	35,535
Interest rate swaps	**(206)**	688	**(463)**	6,933
Unrealised foreign exchange on cash and cash equivalents	**(8,034)**	(677)	**(5,449)**	(1,266)
Decommissioning expenditure	**(12,644)**	(5,972)	**(24,333)**	(18,464)
Cashflow from operations	**467,887**	173,614	**1,300,249**	454,724
(Increase)/decrease in inventories	**(10,094)**	17,318	**32,851**	(9,941)
Increase in trade and other receivables	**(224,584)**	(57,417)	**(282,814)**	(79,937)
Increase/(decrease) in trade and other payables	**245,685**	(4,693)	**417,641**	167,908
	478,894	128,822	**1,467,927**	532,754
Corporation tax paid	**–**	–	**–**	(10,004)
Net cash from operating activities	**478,894**	128,822	**1,467,927**	522,750
Investing activities				
Capital expenditure	**(101,286)**	(81,234)	**(331,624)**	(166,894)
Deferred consideration payment	**(46,470)**	–	**(62,334)**	–
Acquisition of subsidiaries net of cash acquired	**–**	–	**(957,452)**	–
Net cash used in investing activities	**(147,756)**	(81,234)	**(1,351,410)**	(166,894)
Financing activities				
Bond issue	**–**	(20,000)	**–**	–
Payments for lease liabilities	**(14,403)**	–	**(27,421)**	(3,482)
Loan repayment	**(292,000)**	(688)	**(442,000)**	(234,776)
Loan drawdown	**–**	–	**550,000**	–
Bank interest & charges	**(53,983)**	(31,404)	**(108,500)**	(108,651)
Interest rate swaps	**206**	–	**463**	(6,933)
Net cash used in financing activities	**(360,180)**	(52,092)	**(27,458)**	(353,842)
Currency translation differences relating to cash	**8,034**	676	**5,452**	1,266
(Decrease)/increase in cash & cash equivalents	**(21,008)**	(3,828)	**94,511**	3,280
Cash and cash equivalents, beginning of period	**160,368**	8,311	**44,849**	1,203
Cash and cash equivalents, end of period	**139,360**	4,483	**139,360**	4,483

The accompanying notes on pages 11 to 33 are an integral part of the financial statements.

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS

1. Nature of operations

Ithaca Energy plc (formerly Delek North Sea Limited (the "Group" or "Ithaca Energy")), is a Company limited by shares incorporated and domiciled in the UK and is a Group involved in the development and production of oil and gas in the North Sea. During the quarter ended 30 September 2022 the Group amended the consolidation to include the immediate parent company Delek North Sea Limited (now Ithaca Energy plc) and the comparative periods have been restated to reflect this change.

2. Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in conformity with the requirements of the Companies Act 2006.

The consolidated financial statements for the nine months ended 30 September 2022 and the nine months ended 30 September 2021 do not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The financial statements are not audited and not reviewed.

The consolidated financial statements are presented in US dollars as this is the functional currency in which the business trades in the normal course of business. All values are rounded to the nearest thousand (US$'000), except when otherwise indicated.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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:

- Strong commodity markets in 2022 compared with 2021/2020; – Brent has averaged over $105/bbl and NBP has averaged over 196p/therm since 1 January 2022;
- Reserves Based Lending ("RBL") liquidity headroom of almost $478m ($650m drawn versus $925m available plus $203m cash) as at 21 November 2022;
- Strong operational performance and well-diversified portfolio which has been further strengthened by the acquisitions of Siccar Point Energy and Summit as at 30 June 2022 and with Abigail coming online in November 2022
- A material hedge position which reduces exposure to price uncertainty – 47% of total Q4 2022 production was hedged, and 35% of 2023 production.

Cash flow forecast – base case assumptions:		2022-Q4	2023
Average oil price	$/bbl	**96**	89
Average gas price	p/th	**157**	348
Average hedge oil price	$/bbl	**56**	68
Average hedge gas price	p/th	**114**	156

The Directors closely monitor the funding position of the Group throughout the year including monitoring continued compliance with covenants 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. The following separate scenarios covering the period through 31 December 2023 have been reviewed:

- 10% decrease in production for 4Q 2022 and the year ending 31 December 2023
- average sales price $86/bbl in 4Q 2022 and $70/bbl for the year ending 31 December 2023 and 132p/therm in 4Q 2022 and 200p/therm in 2023
- 10% increase in opex and capex for 4Q 2022 and the year ending 31 December 2023
- GBP/USD exchange rate of 1.10

The sensitivities above, when considered on a combined basis, which the Directors consider to represent a reasonable worst case would continue to result in the business being able to meet its obligations as they fall due. The Group would still continue to have sufficient cash headroom throughout the period to 31 December 2023 (the 'going concern period') and still have the necessary liquidity to continue trading.

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies, judgements and estimation uncertainty continued

Based on their assessment of the Group's financial position to the period 31 December 2023, the Group'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 financial statements.

Basis of consolidation

The consolidated financial statements of the Group include the financial information of Ithaca Energy and all wholly-owned subsidiaries. All intergroup transactions and balances have been eliminated on consolidation.

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

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the consideration given for the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of completion of the acquisition. Transaction 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 a gain on bargain purchase.

Goodwill

Capitalisation

Goodwill acquired through business combinations is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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 the carrying amount, an impairment loss is recognised in the income statement. Impairment losses relating to goodwill cannot be reversed in future periods. The CGU for the purposes of the goodwill testing is the North Sea i.e. the entire Group portfolio of oil and gas assets which is consistent with the operating segment view of the business.

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.

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 financial statements are presented in United States Dollars, which is the Group's presentation currency as well as the functional currency of the parent company and each of its subsidiaries. In preparing the financial information of the parent and its subsidiaries, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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.

Exchange differences are recognised in income statement in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Financial instruments

All financial instruments are initially recognised at fair value on the statement of financial position. The Group's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, contract assets, derivatives, accounts payable, accrued liabilities, contract liabilities, borrowings and contingent and deferred consideration. Under IFRS 9, with the exception of derivatives and contingent and deferred considerations, all financial instruments are recorded at amortised cost based on an analysis of the business model and terms of financial assets. 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 borrowings are classified as other financial liabilities and carried at amortised cost. Although the Group does not intend to trade its derivative financial instruments, they are required to be carried at fair value though other comprehensive income.

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

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to commodity risks, interest rate and foreign exchange rate risks. These instruments include commodity swaps, collars and options; foreign exchange forward contracts and collars; and interest rate swaps. Further details of derivative financial instruments are disclosed in note 8.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives mature in less than 12 months and are expected to be realised or settled in less than 12 months are presented as current assets or current liabilities.

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies, judgements and estimation uncertainty continued

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of commodity risks in cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group designates only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognised in other comprehensive income and accumulated in the hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time-period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis – the Group applies straight-line amortisation. Those reclassified amounts are recognised in profit or loss in the same line as the hedged item. If the Group expects that some or all of the loss accumulated in hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'Other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same revenue line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non- financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in hedging reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the hedging reserve is reclassified immediately to profit or loss.

If a hedge of a transaction related item is discontinued part way through the life of the hedge (e.g. due to early termination of the swap, hedging resets), but the hedged item is still expected to occur, the amounts deferred in equity would remain in equity until the earlier of: (i) the hedged transaction occurring; or (ii) expectation that the amount deferred in equity will not be recovered in the future periods.

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 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. Provision is made for obsolete, slow-moving and defective items where appropriate.

Trade and other 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 any material 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.

Lifting or offtake arrangement 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", included within other receivables or "overlift", included within other payables in the statement of financial position. Both are stated at net realisable value. Movements during an accounting period are adjusted through cost of sales in the statement of income.

Other receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the profit or loss when the assets are derecognised, modified or impaired. The Group's financial assets measured at amortised cost includes trade and other receivables and amounts due from related parties.

Trade and other payables

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 included trade and other payables and finance debt.

Property, plant and equipment

Oil and gas expenditure – exploration and evaluation assets

Capitalisation

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

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

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies, judgements and estimation uncertainty continued

Property, plant and equipment continued

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 Developing & Producing (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 generally on a field-by-field basis. 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.

Impairment

For impairment review purposes the Group's oil and gas assets are aggregated into cash-generating units ("CGUs") as identified in accordance with IAS 36. A review is carried out each reporting date for any indicators that the carrying value of the Group's assets may be impaired or previously impaired assets (excluding goodwill) where a reversal of a previous impairment may arise. For assets where there are such indicators, an impairment test is carried out on the CGU. The impairment test involves comparing the carrying value with the recoverable value of an asset. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use, where the value in use is determined from estimated future net cash flows. If the recoverable amount of an asset is estimated to be less that its carrying amount, the carrying amount of the asset is reduced to the recoverable amount. The recoverable amount of the CGU is fair value less costs of disposal. 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. The maximum possible reversal is capped at the net book value had the asset not been impaired in the past.

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.

Interest-free loans from parents are initially recognised at fair value. The difference between the fair value of the loans and their nominal values accounted for as a capital contribution and credited to equity. After initial recognition, the loans measured at amortised cost using implied interest rate of the notes.

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 or 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 and 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 the obligation exists for a new facility or well, such as oil & gas production or transportation facilities, the obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. In subsequent periods, the asset is adjusted for any changes in the estimated amount or timing of the settlement of the obligations. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The carrying amounts of the associated decommissioning 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. The unwinding of discount in the net present value of the total expected cost is treated as an interest expense. Changes in the estimates are reflected prospectively over the remaining life of the field.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a reimbursement asset is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The amount recognised for the reimbursement may not exceed the amount of the provision.

Contingent and deferred 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. Deferred consideration is measured at amortised cost.

Taxation

Current tax

Current 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. Current tax is calculated by applying the applicable statutory tax rate to taxable profits for the year, which is calculated in accordance with UK tax law, and the tax rates applied are those which are enacted or substantively enacted at each balance sheet date. Taxable profit differs from net profit, as reported in the consolidated income statement, because it excludes items of income or expense that are taxable or deductible in other accounting periods and it further excludes items of income or expenses that are never taxable or deductible.

Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at each balance sheet date.

Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill and deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and all available evidence is considered in evaluating the recoverability of these deferred tax assets.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities relating to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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 recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets which are recognised in profit or loss on a straight-line basis over the lease term. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies, judgements and estimation uncertainty continued

Leases continued

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

The Group's right-of-use assets are included in Property, Plant and Equipment (Note 5).

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.

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.

Changes in accounting pronouncements

The Group has adopted all new and amended IFRS Standards effective in the financial statement period 1 January 2022 to 30 September 2022.

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, and IFRS 16 Leases
Amendments to IFRS 1	First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, and IFRS 16 Leases
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	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The company does not expect that the adoption of the Standards and amendments 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. Estimates and judgements could have an impact on the carrying amount of assets and liabilities and the Group's result. Estimation uncertainties could have a material impact on the Group's results in the 12 months following the reporting date. The most important estimates and judgements in relation thereto are:

Key sources of estimation uncertainty

Estimates in oil and gas reserves and contingent resources

The Group's estimates of oil and gas reserves and contingent resources, and the associated production forecasts, are used in the impairment testing of property plant and equipment and goodwill, in the measurement of depletion and decommissioning provisions, and in the determination of whether deferred tax assets are recoverable. 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 and contingent resources require critical judgement. Factors such as the availability of geological and engineering data, reservoir performance data, drilling of new wells and estimates of future oil and gas prices all impact on the determination of the Group's estimates of its oil and gas reserves which could result in different future production profiles affecting prospectively the discounted cash flows used in impairment testing. These are based on a bi-annual third party expert's view. For the purposes of depletion and decommissioning estimates, the Group uses proved and probable reserves; and for the purposes of the impairment tests performed and deferred tax asset recoverability, the Group considers the same proved and probable reserves as well as risked resource volumes. These risking adjustments are reflective of management's assessment of the Group's progress of the individual field development and are reflective of a market participant view. Changes in estimates of oil and gas reserves and resources resulting in different future production profiles will affect the discounted cash flows used in impairment testing, the anticipated date of decommissioning, the depletion charges in accordance with the unit of production method and the recoverability of deferred tax assets. The sensitivity of the Group's impairment tests and deferred tax recoverability assessments to key sources of estimation uncertainty including reserves and resources is discussed below.

Estimates in impairment of oil and gas assets and goodwill

Determination of whether the Group's oil and gas assets or goodwill have suffered any impairment requires an estimation of the recoverable amount of the CGU to which oil and gas assets and goodwill have been allocated. The calculation requires the Group to estimate the future cash flows expected to arise from the CGU using discounted cash flow models comprising asset-by-asset life of field projections.

Key assumptions and estimates in the impairment models relate to commodity prices that are based on internal view of forward curve prices 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 oil and gas reserves and resources on a risked basis as described above.

The sensitivity of the Group's carrying amounts to these assumptions is illustrated by the impairments and reversals disclosed in the income statement.

Furthermore, there is also uncertainty due to climate change, the speed of the energy transition, and the impact and extent of the Energy Profits Levy, and the likely impact these factors will have on both oil and gas demand and forecast prices. The Group recognises that the energy transition is likely to impact the demand, and hence the future prices, of commodities such as oil and natural gas which may, in turn, affect the recoverable amount of the Group's oil and gas assets. The Group also acknowledges that there are a range of possible energy transition scenarios that may indicate different outcomes for oil and gas prices. There are inherent limitations with scenario analysis and it is difficult to predict which, if any, of the scenarios might eventuate. The Group has considered climate adjusted price curves in the assessment of forecast commodity prices and related sensitivity disclosures. In particular, the impact on the carrying amounts of the Group's oil and gas assets at 31 December 2021 and 30 September 2022 of a 20% reduction in forecast revenues which management considers illustrates the possible effect of the energy transition over the longer term, as well as changes in revenues that could arise from changes in the outlook for commodity prices and oil and gas reserves estimates that are reasonably possible within the next financial year.

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting policies, judgements and estimation uncertainty continued

Significant accounting judgements and estimation uncertainties continued

Key sources of estimation uncertainty continued

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 and regulations or their interpretation, and/or due to changes in commodity prices. The payment dates are uncertain and depend on the production lives of the respective fields. Management does not expect any reasonable change in the expected timing of decommissioning to have a material effect on the decommissioning provisions, assuming cash flows remain unchanged. A nominal discount rate of 3.5% (2021: 2.5%) is used to discount the estimated costs. The inflation rate applied to discount the estimated costs is 2.0% (2021: 2.0%). Given the long term nature of the Group's decommissioning liabilities and the historic compounded inflation rates in the industry, management do not believe that the current short term inflationary pressures will have a material impact on the decommissioning liabilities of the Group. A variation in this discount rate of 1% would change the decommissioning liabilities by approximately $228 million (2021: $202 million). Management consider that it is not practical to provide sensitivities for the various other individual assumptions.

Taxation estimates

The Group's operations are subject to a number of specific tax rules which apply to exploration, development and production companies. 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 judgements and estimates 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 estimated value, inputs and assumptions please refer to note 6.

The Group's deferred tax assets are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the UK can be utilised, including as a result of group re-organisations and asset transfers. In accordance with IAS 12 Income Taxes, the Group assesses the recoverability of its deferred tax assets at each period end. Consistent with the impairment sensitivity described above, as at 30 September 2022, a 20% reduction in future revenues, with all other assumptions held constant, would result in a deferred tax asset derecognition of $262 million. An increase in future revenues would result in no additional deferred tax asset recognition on the basis that deferred tax assets are already recognised in full.

The above $262m million figure assumes that cash flows are equivalent to taxable profits and that any reorganisation required to utilise certain deferred tax assets does not result in a displacement of other balances.

Contingent consideration

Liabilities for contingent consideration have been recognised on certain business combinations, which are measured at fair value at acquisition and remeasured at fair value through profit and loss at each reporting date. The amounts of contingent consideration ultimately payable depend on several factors, including the progress of certain of the oil and gas properties acquired and the achievement of certain production and commodity price thresholds. Management has estimated the fair value as the aggregate value of each element of the contingent consideration in each case using an appropriate valuation technique, taking into account the likelihood of occurrence of each contingent event and the net present value of the amount potentially payable. Where applicable, risking assumptions applied in the measurement of contingent consideration were consistent with those applied in the fair valuation of the related oil and gas properties.

It is not practical to provide sensitivities to specific assumptions given the multiple contingent events and assumptions involved.

Significant judgements

Acquisitions

In the periods presented, the Group has made a number of acquisitions. The acquisitions were accounted for as business combinations under IFRS 3. The assets and liabilities identified in the purchase price allocation include oil & gas assets, decommissioning liabilities, deferred tax assets and liabilities, derivatives and working capital.

The total consideration payable includes both amounts paid at completion of each of the acquisitions, and in respect of the acquisition of Marubeni Oil & Gas Limited ("MOGL") and the Siccar Point Energy (Holdings) Limited ("Siccar Point Energy") entities, both acquisitions require judgements to be made regarding the future value of associated contingent consideration, as further described above.

The calculation of the fair value of the oil & gas assets acquired requires the Group to estimate the future cash flows expected to arise from the Cash Generating Units (CGUs) in the acquired business using discounted cash flow models. Key assumptions and estimates include: commodity prices, discount rates and oil and gas reserves estimates. See above estimates in the impairment of oil and gas assets and goodwill sections and estimate in the oil and gas reserves section for further details regarding these assumptions. In addition, the Group has considered the value that a market participant would prescribe to prospective resources in determining both the fair value of the oil & gas assets acquired and the contingent consideration recognised.

In determining the value of the deferred tax asset recognised on acquisition, the Group has made assumptions in respect of the amount of tax losses brought forward which will be available to offset against future taxable profits of the Group. Specifically, in respect of the MOGL acquisition, assumptions have been made with regards to the group relief claims the seller is entitled to make relating to pre-completion periods (pre 4 February 2022) which would reduce the losses available to the Group, and the quantum of such claims. The provisional deferred tax asset recognised by the Group assumes full utilisation of the losses held in MOGL and therefore a change in this assumption could result in a change in the deferred tax asset recognised on the balance sheet on acquisition, which would in turn change the value of the gain on bargain purchase recognised.

Further, in assessing the value of the deferred tax asset recognised in the MOGL and Siccar Point Energy acquisitions, the Group has made assumptions regarding future restructuring within the Group, therefore a change in these assumptions could result in a change in the deferred tax asset recognised.

From date of acquisition the MOGL assets have contributed $283.0 million of revenue and $230.0 million of profit before tax.

From date of acquisition the Siccar Point Energy assets have contributed $78.8 million of revenue and $69.4 million of profit before tax.

4. Exploration and evaluation assets

	US$'000
At 1 January 2021	70,589
Additions	45,922
Write offs/relinquishments	(156)
At 31 December 2021 and 1 January 2022	116,355
Additions	16,150
Acquisitions	706,558
Transfer to D&P	(95,546)
Write offs/relinquishments	(10,363)
At 30 September 2022	733,154

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS
(CONTINUED)

5. Property, plant and equipment

	Right of use operating assets US$'000	Development & Producing assets US$'000	Other fixed assets US$'000	Total US$'000
Cost				
At 1 January 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 and 1 January 2022	9,210	5,838,178	40,293	5,887,681
Additions	**89,717**	**281,638**	**5,089**	**376,444**
Acquisitions	**–**	**1,103,423**	**–**	**1,103,423**
Transfer from E&E	**–**	**95,546**	**–**	**95,546**
Revision of decommissioning cost estimates	**–**	**(325,634)**	**–**	**(325,634)**
At 30 September 2022	**98,927**	**6,993,15**	**45,382**	**7,137,460**
DD&A and Impairment				
At 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	–	465,271	–	465,271
At 31 December 2021 and 1 January 2022	(5,429)	(2,909,695)	(13,824)	(2,928,948)
DD&A charge for the period	**(25,881)**	**(407,421)**	**(8,265)**	**(441,567)**
Impairment	**–**	**(3,347)**	**–**	**(3,347)**
At 30 September 2022	**(31,310)**	**(3,320,463)**	**(22,089)**	**(3,373,862)**
NBV at 1 January 2021	6,882	2,566,250	10,581	2,583,713
NBV at 1 January 2022	3,781	2,928,483	26,469	2,958,733
NBV at 30 September 2022	**67,617**	**3,672,688**	**23,293**	**3,763,598**

The transfer from E&E to D&P assets during the period, relates to the Abigail, Fotla and Jade South wells.

6. Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2022 US$000	2021 US$000	2022 US$000	2021 US$000
Current tax				
Current corporation tax charge	**(112,208)**	–	**(112,208)**	–
Current corporation tax credit – prior year	**–**	3,815	**–**	3,815
Total current tax credit/(charge)	**(112,208)**	3,815	**(112,208)**	3,815
Deferred tax				
Adjustment in respect of prior period	**(16,082)**	–	**(16,082)**	(2,110)
Group tax charge in Statement of Income	**(324,255)**	(124,109)	**(486,369)**	(237,125)
Group tax/credit in Statement of Other Comprehensive Income	**75,568**	127,446	**182,401**	237,125
Total deferred tax (charge)/credit	**(264,769)**	3,337	**(320,050)**	(2,110)
Deferred Petroleum Revenue Tax				
Deferred PRT credit in Statement of Income	**–**	–	**(21,541)**	–
Total Tax charge through Statement of Income	**(452,545)**	(124,109)	**(636,200)**	(235,420)

	Nine months ended 30 September	
Deferred tax	2022 US$000	2021 US$000
Deferred tax		
Accelerated capital allowances	**(333,160)**	(149,781)
Tax losses	**(209,680)**	(76,286)
Abandonment provision	**7,450**	21,121
Deferred PRT	**8,617**	–
Other	**206,723**	202,836
Total tax charge	**(320,050)**	(2,110)

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the 40% statutory rate of tax applicable for UK ring fence oil and gas activities as follows

	Three months ended 30 September		Nine months ended 30 September	
	2022 US$000	2021 US$000	2022 US$000	2021 US$000
Accounting profit before tax	**287,111**	253,203	**2,028,456**	463,509
At tax rate of 40% (2021: 40%)	**(114,844)**	(94,081)	**(811,382)**	(185,404)
Non-deductible expense	**(4,157)**	(31,750)	**(49,353)**	(64,982)
Impairment of goodwill	**(344)**	–	**529,737**	–
Current Tax on Energy Profits Levy	**(77,140)**		**(77,140)**	–
Financing costs not allowed for SCT	**(885)**	(1,108)	**(1,900)**	(1,975)
Ring Fence Expenditure Supplement	**89,137**	2,807	**124,025**	9,108
Deferred tax effect of investment allowance	**(1,685)**	2,735	**5,569**	6,563
Over provided in prior years	**(16,082)**	–	**(16,082)**	1,704
Deferred Petroleum Revenue Tax	**–**		**(12,925)**	
Deferred Tax on Energy Profits Levy	**(323,321)**	–	**(323,321)**	–
Unrecognised tax losses	**(3,224)**	(136)	**(3,428)**	(434)
Total tax credit/(charge) recorded in the consolidated statement of income	**(452,545)**	(124,109)	**(636,200)**	(235,420)

The Company is UK tax resident. The effective rate of tax applicable for UK ring fence oil and gas activities in 2022 was 40% (2021: 40%) consisting of a Ring Fence Corporation Tax rate of 30% and the supplementary charge of 10%. Items affecting the tax charge include a 10% uplift on ring fence losses, Ring Fence Expenditure Supplement increasing the losses available to offset future profits subject to Ring Fence Corporation Tax and Supplementary Charge. In addition, investment allowance, a 62.5% uplift on capital expenditure, is available reducing the profits subject to the supplementary charge only. The deferred Petroleum Revenue Tax (PRT) Asset recognised on the Alba field has been partially derecognised in the period from 1 January 2022 to 30 June 2022 as the asset is expected to reverse against more profits subject to the 0% PRT rate. The Energy Profits Levy was enacted in July 2022 with effect from 26 May 2022 which has increased the tax charge by 25%.

Deferred tax relates to the following:

	30 September 2022 US$000	31 December 2021 US$000
Deferred corporation tax liability	**(1,654,860)**	(688,140)
Deferred corporation tax asset	**2,929,157**	876,904
Deferred PRT asset	**10,612**	32,154
Net deferred tax asset	**1,284,909**	220,918

Deferred tax assets primarily relate to decommissioning liabilities, brought forward tax losses and accumulated losses and profits related to derivative contracts. Deferred tax liabilities primarily relate to accelerated capital allowances property plant and equipment and accumulated losses and profits related to derivative contracts.

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

6. Taxation continued

The gross movement on the deferred tax account is as follows:

	30 September 2022 US$000	31 December 2021 US$000
At 1 January	**220,918**	382,114
Income statement charge	**(523,992)**	(355,828)
Other comprehensive income credit	**182,401**	194,632
Business combinations	**1,405,582**	–
At period end	**1,284,909**	220,918

The gross movement on the deferred tax account through the consolidated statement of income relates to the following:

	30 September 2022 US$000	31 December 2021 US$000
Accelerated capital allowances	**(333,160)**	(138,544)
Tax losses	**(209,680)**	(218,174)
Abandonment provision	**7,450**	24,214
Petroleum revenue tax	**–**	(12,861)
Deferred PRT	**8,617**	–
Other	**206,723**	152,015
	(320,050)	(193,350)

Deferred tax liability	Deferred Corporation Tax on Deferred PRT US$000	Accelerated tax depr'n US$000	Total US$000
At 1 January 2022	**(12,861)**	**(675,279)**	**(688,140)**
Business combinations	**–**	**(647,743)**	**(647,743)**
Origination and reversal of temporary differences	**8,617**	**(327,237)**	**(318,620)**
At 30 September 2022	**(4,244)**	**(1,650,259)**	**(1,654,503)**

Deferred tax assets	Other US$000	Tax Losses US$000	Decommissioning provision US$000	Total US$000
At 1 January 2022	**178,956**	**500,282**	**197,666**	**876,904**
Business combinations	**38,406**	**1,858,706**	**156,212**	**2,053,324**
Prior year adjustment	**(16,082)**	**–**	**–**	**(16,082)**
Origination and reversal of temporary differences	**201,154**	**(193,950)**	**7,450**	**14,654**
At 30 September 2022	**402,434**	**2,165,038**	**361,328**	**2,928,800**

Deferred PRT asset	Total US$000
At 1 January 2022	**32,154**
Origination and reversal of temporary differences	**(21,541)**
At 30 September 2022	**10,613**

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

The carrying value of the net deferred corporation tax asset at 30 September 2022 of $2,929 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.

An Energy Profits Levy ("EPL") was enacted on 11 July 2022 applying a Levy of 25% to the profits of oil and gas companies until 31 December 2025 or earlier if prices return to normalised levels. The EPL is charged upon oil and gas profits calculated on the same basis as Ring Fence Corporation Tax ("RFCT") however excludes relief for decommissioning and finance costs. RFCT losses and Investment Allowance are not available to offset the EPL. The impact of the EPL is to increase the deferred tax liability by $351 million and increase the deferred tax asset by $162 million, reducing the overall deferred tax asset of the group by $189 million.

Of the current tax charge $77m relates to EPL.

On 17th November 2022 the Chancellor announced his Autumn Statement, which detailed upcoming changes to the Energy Profits Levy for oil and gas companies. Changes included increasing the rate to 35% from 1st January 2023 and extending the EPL until 31st March 2028, regardless of prices. The anticipated impact of the changes as at 30 September 2022 would be to increase the deferred tax liability by a further $353 million and increase the deferred tax asset by a further $65 million, reducing the overall deferred tax asset of the group by $288 million.

7. 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.

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

7. **Financial instruments** continued

The accounting classification of each category of financial instruments and their carrying amounts as at 30 September 2022 are set out below:

	Measured at amortised cost $'000	Mandatorily measured at fair value through profit or loss $'000	Derivative hedging instruments $'000	Total carrying amount $'000
Financial assets				
Cash and cash equivalents	139,360	–	–	**139,360**
Trade and other receivables	555,275	–	–	**555,275**
Decommissioning receivable	189,168	–	–	**189,168**
Derivative financial instruments	–	–	17,840	**17,840**
Financial liabilities				
Borrowings	(1,720,550)	–	–	**(1,720,550)**
Trade and other payables	(1,049,878)	–	–	**(1,049,878)**
Lease liability	(143,750)	–	–	**(143,750)**
Contingent and deferred consideration	–	(262,995)	–	**(262,995)**
Derivative financial instruments	–	–	(672,615)	**(672,615)**
				(2,948,145)

The accounting classification of each category of financial instruments and their carrying amounts as at 31 December 2021 are set out below:

	Measured at amortised cost $'000	Mandatorily measured at fair value through profit or loss $'000	Derivative hedging instruments $'000	Total carrying amount $'000
Financial assets				
Cash and cash equivalents	44,849	–	–	44,849
Trade and other receivables	228,290	–	–	228,290
Decommissioning receivable	246,824	–	–	246,824
Derivative financial instruments	–	–	5,108	5,108
Financial liabilities				
Borrowings	(1,391,692)	–	–	(1,391,692)
Trade and other payables	(484,268)	–	–	(484,268)
Lease liability	(3,489)	–	–	(3,489)
Contingent and deferred consideration	–	(75,090)	–	(75,090)
Derivative financial instruments	–	–	(459,302)	(459,302)
				(1,888,770)

The following table presents the Group's material financial instruments measured at fair value for each hierarchy level as of 30 September 2022:

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total Fair Value US$'000
Contingent consideration	**–**	**–**	**(262,995)**	**(262,995)**
Derivative financial instrument asset	**–**	**17,840**	**–**	**17,840**
Derivative financial instrument liability	**–**	**(672,615)**	**–**	**(672,615)**

Movement in level 3 financial instruments in the 9 months to 30 September 2022 is as follows:

	US$'000
At 1 January 2022	(19,480)
Additions	(259,491)
Changes in fair value	7,908
Unwinding of discount rate	(3,739)
Impairment	1,100
Utilisation	10,707
At 30 September 2022	(262,995)

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	–	–	(19,480)	**(19,480)**
Derivative financial instrument asset	–	5,108	–	**5,108**
Derivative financial instrument liability	–	(459,302)	–	**(459,302)**

Movement in level 3 financial instruments in the 12 months to 31 December 2021 is as follows:

	US$'000
At 1 January 2021	(14,200)
Additions	(13,530)
Changes in fair value	8,250
At 31 December 2021	(19,480)

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

	Three months ended 30 September		Nine months ended 30 September	
	2022 US$000	2021 US$000	2022 US$000	2021 US$000
Revaluation of forex forward contracts	**(16,898)**	(4,503)	**(33,919)**	(6,612)
Revaluation of commodity hedges	**(632)**	884	**(2,742)**	997
	(17,530)	(3,619)	**(36,661)**	(5,615)
Realised gain on commodity hedges	**(12,280)**	2,159	**(12,280)**	6,109
Total gain/(loss) on financial instruments	**(29,810)**	(1,460)	**(48,941)**	494

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

7. Financial instruments continued

Hedging reserve

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

	Three months ended 30 September		Nine months ended 30 September	
Hedging reserve	2022 US$000	2021 US$000	2022 US$000	2021 US$000
Revaluation of derivative contracts	**153,042**	(292,719)	**(96,443)**	(501,362)
Realised loss on derivative contracts	**198,297**	(102,209)	**(114,116)**	(206,884)
Amounts recycled to revenue	**(195,792)**	66,104	**74,381**	79,505
Amounts recycled to revenue – oil put premiums	**2,624**	7,412	**9,878**	19,729
Amounts recycled to revenue – gas put premiums	**(12,208)**	2,109	**5,181**	9,267
Amounts recycled to finance costs – interest put premiums	**205**	688	**204**	6,932
Total gain/(loss)	**146,168**	(318,615)	**(120,915)**	(592,813)

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

i) Commodity risk

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

In all periods presented the Group has designated certain commodity options as a cash flow hedge of highly probable purchases. Because the critical terms (i.e. the quantity, maturity and underlying) of the commodity option and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the intrinsic value of the commodity option and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the price of underlying commodity if the price of the commodity increases above the strike price of the derivative. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the option contracts, which is not reflected in the fair value of the hedged item and if the forecast transaction will happen earlier or later than originally expected.

The Group's policy is to have the ability to hedge oil and gas prices up to a maximum of 75% of the next 12 months' production on a rolling annual basis, up to 50% in the following 12 month period and 25% in the subsequent 12-month period. On a rolling 12 month period under the RBL, the Group is required to hedge a minimum of 70% of volumes of net entitlement production expected to be produced in the next 12 months, 50% of volumes of net entitlement produced for the following 12 months on a best effort basis.

The below represents commodity hedges in place at 30 September 2022:

	Term	Volume		Average price
Oil swaps	Oct 22 – Dec 23	3,899,896	bbls	$64/bbl
Oil puts	Oct 22 – Dec 22	524,400	bbls	$57/bbl
Oil collars	Oct 22 – Dec 23	5,411,000	bbls	$67/bbl floor – $90/bbl ceiling
Gas swaps	Oct 22 – Jun 24	159,482,500	therms	172p/therm
Gas puts	Oct 22 – Sep 23	18,350,000	therms	126p/therm
Gas collars	Oct 22 – Sep 23	59,450,000	therms	195p/therm floor – 353p/therm ceiling

The following table summarises the sensitivity of 20% decrease in realised commodity prices, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date. The impact on equity is the same as the impact on profit before tax.

	Three months ended 30 September		Nine months ended 30 September	
Change in realised commodity prices	2022 US$000	2021 US$000	2022 US$000	2021 US$000
20% decrease in realised oil price	**(83,174)**	(82,514)	**(277,839)**	(271,610)
20% decrease in realised gas price	**(130,166)**	(35,976)	**(266,521)**	(93,326)
	(213,340)	(118,490)	**(544,360)**	(364,936)

A 20% increase in realised commodity prices would have the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

ii) Interest risk

The calculation of interest payments for the RBL Facilities and term loan agreements incorporate SONIA. The Group is therefore exposed to interest rate risk to the extent that SONIA may fluctuate. The Group mitigates the risk of SONIA fluctuations by entering into interest rate swaps on floating rates.

The below represents interest rate financial instruments in place at 30 September 2022:

Derivative	Term	Value	Rate
Interest rate swap	Oct 21 – Dec 23	$50 million	0.219%
Interest rate swap	Jul 22 – Dec 22	$150 million	0.398%

The following table summarises the sensitivity of an increase of 500 basis points in interest rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date. The impact on equity is the same as the impact on profit before tax.

	Three months ended 30 September		Nine months ended 30 September	
Change in interest rate	2022 US$000	2021 US$000	2022 US$000	2021 US$000
Increase of 500 basis points	**(9,427)**	(10,672)	**(13,296)**	(25,897)

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.

As at 30 September 2022 the Group had an average of £27 million per quarter hedged at an average forward rate of $1.34 : £1 for the period October to December 2022.

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 January to December 2022.

The Group also enters into collar contracts as a means of hedging its exposure to foreign exchange rate risks. The Group holds $200m zero cost foreign exchange collars which mature on 30 November 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. Oil production from Cook is sold to Shell Trading International Ltd, Stella and Vorlich to ENI, Captain, Alba and Pierce to BP Oil International. Stella and Vorlich gas is sold to BP Gas Marketing and Gazprom Marketing and Trading. The agreement to sell Vorlich gas to Gazprom has been terminated with effect 30 September 2022.

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

7. Financial instruments continued

Hedging reserve continued

iv) Credit risk continued

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 30 September 2022, substantially all accounts receivables are current, being defined as less than 90 days. The Group has no allowance for doubtful accounts as at 30 September 2022 (31 December 2021: $Nil).

The Group may be exposed to certain losses in the event that counterparties to derivative financial instruments are unable to meet the terms of the contracts. The Group's exposure is limited to those counterparties holding derivative contracts with positive fair values at the reporting date. As at 30 September 2022, the Group's exposure is $15.6 million (31 December 2021: $5.0 million). As derivative instruments are hedged with banks who are counterparties to the Group's RBL agreement the company considers there to be a low risk of default and therefore no credit value adjustment (CVA) or credit loss is recognised.

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

v) Liquidity risk

Liquidity risk includes the risk that as a result of its operational liquidity requirements the Group will not have sufficient funds to settle a transaction on the due date. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities, and by considering medium and future requirements by continuously monitoring forecast and actual cash flows. The Group considers the maturity profiles of its financial assets and liabilities. As at 30 September 2022 and 31 December 2021, substantially all accounts payable are current.

vi) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group regularly monitors the capital requirements of the business over the short, medium and long-term, in order to enable it to foresee when additional capital will be required.

The Group has approval from management to hedge external risks, commodity prices, interest rates and foreign exchange risk. This is designed to reduce the risk of adverse movements in market prices, interest rates and exchange rates eroding the Group's financial results.

The following table shows the timing of cash outflows relating to liabilities at at 30 September 2022:

	Within 1 year US$'000	1 to 5 years US$'000
Trade and other payables	(1,049,878)	–
Derivatives	(547,219)	(125,396)
Deferred and contingent consideration	(2,350)	(260,645)
Borrowings	(459,500)	(1,261,050)
	(2,058,948)	(1,647,091)

The following table shows the timing of cash outflows relating to liabilities at at 31 December 2021:

	Within 1 year US$'000	1 to 5 year US$'000
Trade and other payables	(484,268)	–
Derivatives	(438,006)	(21,296)
Deferred and contingent consideration	(49,806)	(25,284)
Borrowings	(437,076)	(954,616)
	(1,409,156)	(1,001,196)

8. Derivative financial instruments

	30 September 2022 US$'000	31 December 2021 US$'000
Oil swaps – cash flow hedge	**(55,467)**	(102,704)
Oil puts – cash flow hedge	**(7,165)**	(6,542)
Oil collars – cash flow hedge	**(10,545)**	(9,402)
Gas swaps – cash flow hedge	**(463,050)**	(264,345)
Gas puts – cash flow hedge	**4,544**	(3,317)
Gas collars – cash flow hedge	**(105,236)**	(66,007)
Interest rate swaps	**2,796**	133
FX collars	**(15,068)**	–
FX forwards	**(5,584)**	(2,010)
	(654,775)	(454,194)

Maturity analysis of derivative financial instruments	30 September 2022 US$'000	31 December 2021 US$'000
Non-current assets	**4,812**	133
Current assets	**13,028**	4,975
Non-current liabilities	**(125,396)**	(21,296)
Current liabilities	**(547,219)**	(438,006)
	(654,775)	(454,194)

NOTES TO THE Q3 CONDENSED FINANCIAL STATEMENTS (CONTINUED)

9. Related party transactions

The Group's immediate parent undertaking is DKL Energy 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 financial statements include the financial information of the Group and the subsidiaries listed in the following table:

		% equity interest	
	Country of incorporation	30 September 2022	31 December 2021
Ithaca Energy (E&P) Limited (formerly Ithaca Energy Inc.)	Jersey	100%	100%
Ithaca Energy (UK) Limited	Scotland	100%	100%
Ithaca Energy Plc (formerly Delek North Sea Limited)	England and Wales	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 (formerly Chevron North Sea 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%
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%
Ithaca MA Limited*	England and Wales	100%	–
Ithaca SP Bonds PLC (formerly Siccar Point Energy Bonds PLC)**	England and Wales	100%	–
Ithaca SP Finance Limited (formerly Siccar Point Energy Finance Limited)**	England and Wales	100%	–
Ithaca SP (Holdings) Limited (formerly Siccar Point Energy (Holdings) Limited)**	England and Wales	100%	–
Ithaca SP (E&P) Limited (formerly Siccar Point Energy E&P Limited)**	England and Wales	100%	–
Ithaca SP (O&G) Limited (formerly Siccar Point Energy U.K. Limited)**	England and Wales	100%	–
Ithaca SPE Limited (formerly Siccar Point Energy Limited)**	England and Wales	100%	–
Ithaca Zeta Limited (formerly Summit Exploration and Production Limited)**	England and Wales	100%	–

Transactions between subsidiaries are eliminated on consolidation.

* The Group acquired 100% of the share capital of Ithaca MA Limited (formerly Marubeni Oil & Gas (UK) Limited) on 4 February 2022.

** The Group acquired 100% of the share capital of Ithaca SP Bonds PLC, Ithaca SP Finance Limited, Ithaca SP (Holdings Limited), Ithaca SP (E&P) Limited, Ithaca SP (O&G) Limited, Ithaca SP UK Limited, Ithaca SPE Limited and Ithaca Zeta Limited on 30 June 2022.

*** Ithaca SPL Limited was dissolved on 15 February 2022.

The following table provides the loan balances with related parties as of

Borrowings – principal amount	30 September 2022 US$000	Year ended 31 December 2021 US$000
Subordinated loan due to DKL Energy Limited	**(63,000)**	(63,000)
Capital Notes issued to DKL Energy Limited	**(392,000)**	(374,076)
	(455,000)	(437,076)

Amounts due to parent	2022 US$000	Year ended 31 December 2021 US$000
Delek Group Limited	**(28,941)**	(28,941)
Subordinated loan due to DKL Energy Limited	**(14,090)**	(14,090)
Other amounts owed to parent	**(377)**	(377)
	(43,408)	(43,408)

The movement in Capital Notes relates to the unwind of the capital contribution.

10. Subsequent events

On 12 October 2022 the remaining Nordic Bonds totalling $8 million were redeemed at the make whole amount of 105.4%.

On 26 October 2022 Ithaca Energy Limited undertook a share capital reduction whereby 114,000,000 issued A ordinary shares of $1.00 each were cancelled and extinguished. Following this capital reduction the issued share capital of the Company was $1,103 being 1,001 A ordinary shares of $1.00 each, 100 B1 ordinary shares of $0.01 each, and 100 B2 ordinary shares of $0.01 each. In addition on this date the existing share premium account of $634,659,000 was cancelled. A number of further steps subsequently followed including the conversion of $1.00 shares to £0.88 shares, the conversion of $0.01 shares to £0.01 shares, the issue of bonus shares and new shares to existing shareholders and the issue of 120,000,000 new shares on the Initial Public Offering (IPO). As a result, the issued share capital of Ithaca Energy plc immediately post IPO was 1,005,162,217 ordinary shares of £0.01 each.

On 1 November 2022, Ithaca Energy Limited changed its name to Ithaca Energy plc.

On 2 October 2022, the Company entered into an amendment agreement with the parent company DKL Energy, to extend the repayment date of the capital loan note to 1 January 2024

On 8 November 2022, a waiver agreement was signed by DKL Energy, the immediate parent of Ithaca Energy plc at the time, to partially waive the Capital Note and Tracker Loan balances (including interest) totalling $469 million such that post IPO these balances would no longer be due from Ithaca Energy plc.

On 4 October 2022, the Company entered into an amendment agreement with the parent company DKL Energy, to extend the repayment date of the subordinated loan to 1 January 2024 or immediately upon the admission of the Company's share capital to a stock exchange.

On 4 October 2022, the Group repaid in aggregate $29.5 million of accrued and outstanding interest under, and costs payable in connection with, a $250 million unsecured term loan facility with Delek Group Ltd, thereby retiring the loan.

On 9 November 2022, Ithaca Energy plc was admitted to the premium segment of the Official List of the Financial Conduct Authority and to trading on the main market of the London Stock Exchange which initially valued the Group at $2.9 billion. Following this, Capital Notes to the value of $392 million and Trader Loan of $77 million was either repaid or waived by the parent company.

On 11 July 2022 the UK Government enacted a temporary windfall tax of 25% on the profits of oil and gas companies called the Energy Profits Levy. On 17 November 2022, the UK Government announced, as part of the Autumn Statement, an update to the Energy Profits Levy with further detailed guidance to follow. As of 1 January 2023 the Energy Profits Levy rate charged on the profits of oil and gas companies, on the same basis as Ring Fence Corporation Tax excluding relief for decommissioning and finance costs, will be increased from 25% to 35% and will be extended from a sunset date of 31 December 2025 to 31 March 2028. As part of the proposed amendments to the enacted Energy Profits Levy the UK Government announced reduction to the Investment Allowance to 29% from 80%. Whilst still under review as guidance is not final, the company estimate that the levy will decrease the net deferred tax asset by $288 million.

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