Siccar Point Energy Limited

Registered No. 9103084

Annual Report and Financial Statements

31 December 2019

Contents

Company information

Directors of the company

Jonathan Leslie Roger

Douglas Weir Fleming

Dr Iain Bartholomew

Christopher Geoffrey Finlayson

Dr Nicholas John Cooper

David Ignatius Foley

Khashayarsha Ali Mohajerani

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Adam Maxwell Jenkins (Appointed 12 March 2020)

Registered Number

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Secretary

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Strategic report

The directors present their strategic report of Siccar Point Energy Limited and its subsidiaries (the “group”) and Siccar Point Energy Limited (the “company”) for the year ended 31 December 2019.

The group is domiciled and incorporated in the UK. The registered office address of all members of the group is 1 Park Row, Leeds, LS1 5AB.

Principal activities

The company is part of the Siccar Point Energy group that was established on 25 June 2014, to build a full cycle, operated North Sea exploration, development and production business. Following the successful completion of two material acquisitions the group has now established a high-quality portfolio of long life, low unit cost, production, development and exploration assets in the UK Continental Shelf.

The group’s interests in significant joint arrangements are listed below:

Licence area	**Type**	**Ownership interest**	**Ownership interest**
		2019	**2018**
Schiehallion	Production	11.75%	11.75%
Jade	Production	5.57%	5.57%
Rosebank	E&A (Pre- sanction development)	20.00%	20.00%
Cambo	E&A (Pre- sanction development)	70.00%*	70.00%*
Blackrock	E&A (Pre- sanction development)	52.50%*	52.50%*
Lyon	Exploration	33.33%*	33.33%*
Mariner	Production	8.89%	8.89%
Suilven	E&A (Pre- sanction development)	75.00%*	75.00%*
Tornado	E&A (Pre- sanction development)	50.00%*	50.00%*

* Operated by the group

The average number of persons employed by the group during the year was: 38 (2018: 37).

Key performance indicators

During 2019, the group’s current KPIs focus was on production and cash.

Average Daily Reported Production: 9,931 boepd (2018: 11,152 boepd)

Cash at 31 December 2019:US$276 million (2018: US$146 million)

Strategic report (continued)

Review of the business

Operated Assets

Cambo

The group made excellent progress on its operated Cambo project in 2019. The FPSO concept selection was finalised earlier in the year and in H2 Front End Engineering Design (FEED) was completed on the FPSO and competitive market bids were received for eighteen major vendor packages enabling firm commercial pricing by the main contractor, Sembcorp Marine. FEED on the subsea aspects neared completion with Baker Hughes (supplier of majority of equipment) enabling early receipt of mature commercial pricing on these components also. Market competitive bids were received for the drilling rig and well planning was progressed sufficiently to start procuring long-lead equipment. The Environmental Statement and final working draft of the Field Development Plan were submitted following receipt of concept acceptance by the Oil & Gas Authority.

At the end of 2019 the project was on-track for sanction in 2020. However, as a result of the Covid-19 pandemic on 30 March 2020 the Cambo partners announced that, following discussions with the UK regulator the Oil and Gas Authority the project would not be sanctioned in 2020. This will now be targeted for the second half of 2021, subject to approval of the necessary licence extension, a request for which has been submitted to the Oil and Gas Authority. The group plans to continue to work with existing key supply chain partners over the coming period to ready the project for FID next year.

Exploration and Appraisal

The group's three well West of Shetland programme concluded successfully in July 2019 with all three activities under cost and ahead of schedule. The Blackrock discovery is being evaluated with the expectation of a number of follow-up exploration and appraisal wells to be drilled in the next few years.

Good progress has been made on development studies for Suilven and Tornado with first project decision gate on track to be achieved in Q2 2020.

No exploration drilling is planned for 2020 and the group has no exploration drilling commitments. Additional seismic is proposed to be acquired over the Blackrock area as the next stage in delineating this discovery.

Non-Operated Assets

Schiehallion

After an excellent start to the year the field saw lower than expected production in H2 as a function of reduced operating efficiency. This was through a combination of one-off events and ongoing work on sand management within the produced water handling and injection system. Very substantial progress was made on this at the end of Q4 and full two pump water injection was restored in February and improved OE is anticipated in 2020.

On the back of successful infill drilling on the field the operator (BP) has remodeled the field and as a result increased its estimate of oil in place from 1.85bn bbls to 2.25bn bbls.

During 2019 there was a pre-tax impairment of US$99.9 million to property, plant and equipment relating to the Schiehallion field. This was largely driven by a reduction in the group's assumption of future commodity prices.

Strategic report (continued)

Mariner

First oil was achieved from the Mariner field on 15 August 2019 giving the group a third producing field. Announcing first production the operator Equinor also announced that it had increased its estimate of in place oil to up to three billion barrels, a 50% increase since project sanction. This creates a very substantial reserves upside in the asset. Production ramp up has been slower than budgeted due primarily to slower delivery of early wells (now addressed with substantial improvements in drilling time already evident) and performance of two wells in the north of the Maureen reservoir (the smaller of the two Mariner reservoirs). Work is ongoing with Equinor to understand this area of the Maureen reservoir better and in the meantime wells in other areas of the Maureen reservoir are being prioritized.

Jade

A strong year from Jade with production above budget. Planning and procurement on two new production wells, Jade JM and Jade South, is progressing on schedule in anticipation of drilling starting late 2020 or early 2021. These wells are expected to increase production rates substantially when they come onstream in 2021 or 2022.

Rosebank

New operator Equinor is currently reviewing development concepts for Rosebank and passed its first Decision Gate milestone in Q1 2020. Development cost estimates have now reduced significantly, as anticipated when Equinor became licence operator in Q1 2019, with further reduction targeted in the next phase of work. The project remains on track for a Final Investment Decision in early 2022.

Reserves and Resources

At the end of 2019, the group had 2P reserves of 190mmboe (2018: 156mmboe) and 2C Contingent Resources of 385mmboe (2018: 323mmboe) for combined discovered resources of 575mmboe (2018: 479mboe). These increases have been substantially driven by the final field modelling on Cambo and increased recovery anticipated on Mariner in line with the operator’s major uplift in its in place oil estimates.

Financing

- On 19 March 2019, the group issued a further US$100 million under its existing five year, senior, unsecured bond with a fixed coupon of 9.0% p.a. The issue was well received and oversubscribed and as a result issued at a 0.75% premium to par value.
- With cash at the end of 2019 of US$276 million and undrawn, available Reserve Based Lending (RBL) at 1 January 2020 of US$182 million, the group is well capitalised for the period ahead with total liquidity at the start of 2020 of US$458 million (cash and undrawn, available RBL).

Average daily reported production in 2019 came from the group’s interests in the Jade, Schiehallion and Mariner fields. Production for 2019 was 9,931 boepd (2018: 11,152 boepd). The group profit for the year was US$40 million (2018: profit US$161 million).

Strategic report (continued)

Future developments

2020 will be another very important year for the group with several significant milestones including:

- Mariner field production ramp up with a further eight production wells planned in 2020.
- Schiehallion restoration of full water injection capability (achieved in February).
- Rosebank Decision Gate 1 (JV approved March).
- Sanctioning the Jade JM and South wells.
- Decision Gate 1 for the Suilven and Tornado development.

Principal risks, uncertainties and mitigation strategies

The key risks facing the group are:
Hydrocarbon Prices: the group's portfolio is exposed to oil and gas prices. The group is engaged in a programme of hedging its exposure to Brent oil and UK NBP gas prices. The group also engaged in hedging its US LIBOR and US Dollar/ Sterling exposures at this time. Several further tranches of oil and gas hedging were placed over the course of 2019.

Project Schedule and Cost: the group is exposed to risks associated with the project schedules and costs of its major developments.

With a cash balance at 31 December 2019 of US$276 million and a strong hedging book, the group is very well placed for the year ahead.

Section 172 Statement

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1), and forms the directors' statement required under section 414CZA, of the Companies Act 2006.

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the group for the benefit of its members as a whole, and in doing so have regard, amongst other matters, to:

- *The likely consequences of any decision in the long-term:*

The group has a strong Board of experienced industry and investment professionals. The Board meets in person quarterly with additional meetings and calls as required. The Board consider and discuss the long-term goals of the group and the impact that any decisions would have across the relevant stakeholders. It also reviews strategy, financial and operational performance to ensure considered and informed decisions in the best interest of the group and its members. Information is provided to the Board through reports sent in advance of each Board meeting and through in-person presentations.

In 2019 the Board approved the issue of a second $100 million tranche of the group's existing bond listed on the Nordic Alternative Bond Market. There was no liquidity requirement for this issue but the Board agreed to proceed as additional insurance against volatility in the oil market. This additional liquidity headroom is to the benefit of all SPE's Stakeholders.

During 2019 the group has worked with its partner Shell to prepare for sanctioning of the Cambo project, west of Shetland. This project will help drive the long-term growth of the company and is to the benefit of all the company's Stakeholders.

Strategic report (continued)

- *The interests of the group's employees:*

The group is a small company with a permanent establishment of 38 employees working in a single office in Aberdeen. The executive directors of the Board sit in an open-plan environment and are very close to the workforce. The Board promotes employee engagement through a variety of channels.

- Monthly town hall meetings are held during which key business issues are discussed and the employees updated on progress towards corporate targets. These meetings are also used for training including, for example, cyber-crime awareness.
- Board meetings in Aberdeen are accompanied by a buffet lunch during which Board members have the opportunity to mix with employees.

We take great pride in our track record as a developer of young professionals within the industry. In 2019 the group was awarded a prize for "Best Supporting and Nurturing Company" in Aberdeen at the annual Young Professionals Summit.

- *The need to foster the group's business relationships with suppliers, customers and others:*

Members of the Senior Management team and the Board meet with key customers and lenders to enhance relationships and understand their views. The group also ensures that creditors are paid within the contracted terms.

Regular meetings are held with all 11 members of the group's bank syndicate. These include both formal presentations and more ad hoc business updates both in Aberdeen and at the offices of the lenders.

Twice a year the group meets with its bond investors as part of investor roadshows in London, Oslo and a number of other locations. These are supplemented by ad hoc meetings as required.

- *The impact of the group's operations on the community and the environment; the desirability of the group maintaining a reputation for high standards of business conduct; the need to act fairly as between members of the group:*

Care of the community and the environment in which the group works is a fundamental business principle. Not only is all applicable legislation complied with, the group strives beyond this and aims to lead by example. Please see www.siccarpointenergy.co.uk for our Health & Safety Policy and Environmental Care Policy.

- *Maintain a reputation for high standards of business conduct*

The UK in general and UK offshore sector in particular are highly regulated business environments and the UK is widely considered to be one of the most transparent and well regulated E&P markets globally. Within this highly regulated environment the Board oversees a company that is subject to a considerable level of scrutiny and oversight as a function of:

- Its backing by two energy expert private equity groups.
- Having an 11 bank Reserves Based Lending syndicate. This $800 million facility brings with it an associated level of due diligence and disclosure.
- Having a $200 million bond listed on the Nordic Alternative Bond Market (a market administered by Oslo Børs) with associated disclosure and listing requirements.

Strategic report (continued)

- *Act fairly as between members of the company*

The company is a privately held company owned by two major private equity groups: Blackstone and Blue Water Energy. Each group has two representatives on the Board and both are deeply involved in all key decisions. Formal Board meetings are supplemented by regular fortnightly calls and ad hoc communication as required. Members' rights are protected by a shareholders agreement between them.

Health, Safety and Environment

The group continues to recognise and act on its responsibilities towards Health, Safety and the Environment (HSE) with a key focus on ensuring that joint venture activities are undertaken in a safe and environmentally responsible manner. This is carried out by actively engaging with joint venture partners and carrying out appropriate due diligence activities. In addition, HSE is embedded in all operational readiness assurance planning activities and the group works in conjunction with its contractors to ensure that all HSE risks are identified and managed appropriately. HSE performance of both contractors and joint venture partners is continuously monitored to assure the group that acceptable standards with respect to HSE are maintained at all times.

On behalf of the Board

Douglas Fleming
Director
24th April 2020

Directors' report

Registered No. 9103084

The Directors present their report together with the audited group and company financial statements for the year ended 31 December 2019.

Results and dividends

The company loss for the year amounts to US$4.6 million (2018: profit of US$28.7 million) and the group profit for the year US$40 million (2018: profit of US$161 million). No dividends have been paid or declared in the period.

Going concern

The group's business activities, together with the factors likely to affect its future development and position are set out above in the strategic report including the actions taken to mitigate the potential impact of Covid-19.

The company participates in a centralised treasury arrangement and so shares banking arrangements with fellow group companies. The group closely monitors its funding position throughout the year including monitoring continued compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. Forecasts are produced regularly along with any related sensitivity analysis to allow proactive management of any business risks including liquidity risk.

Using these forecasts and sensitivities along with additional stress testing and the actions outlined in response to Covid-19, the directors have no reason to believe that a material uncertainty exists that may cast significant doubt over the ability of the group to continue as a going concern or its ability to continue with the current banking arrangements.

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

Section 172(1)

Please see the Strategic Report for details on how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others during the financial year.

Post balance sheet events

Effective 9 January 2020 the Lyon exploration acreage north of the Shetland Islands was relinquished.

In Q1 2020 the Covid-19 pandemic resulted in a sharp fall in global crude prices in addition to significant commodity market volatility relating to the global supply of oil. The group is fully hedged for 2020 with 3.9 million barrels hedged at an average hedge price of $67.31/bbl and 1.7 million barrels for 2021 at average price of $62.89/bbl. This substantially mitigates our exposure in this regard.

As a result of the Covid-19 pandemic on 30 March the Cambo partners announced that, following discussions with the UK regulator the Oil and Gas Authority the project would not be sanctioned in 2020. This will now be targeted for the second half of 2021, subject to approval of the necessary licence extension, a request for which has been submitted to the Oil and Gas Authority. Cambo remains a very strong project with excellent economics and the group plans to continue to work with existing key supply chain partners over the coming period to ready the project for FID next year.

Directors' report (continued)

Registered No. 9103084

The Covid-19 pandemic has not had any impact on the group's current production operations. As a precaution, on the Mariner platform drilling was temporarily suspended in order to reduce the number of personnel and flights. This in turn reduces the risk of a widespread outbreak offshore interrupting production operations. As at 15th April 2020, Equinor has restarted drilling operations on the Noble Lloyd Noble jack-up rig at Mariner, with the platform rig expected to restart in July 2020.

The group considers the emergence and spread of Covid-19 to be a non-adjusting post balance sheet event as there was no disruption to the market, customers, employees or supply chain prior to the year end. Given the inherent uncertainties, it is not practicable at this time to determine the full impact of Covid-19 on the group or to provide a quantitative estimate of this impact.

Disclosure information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditors

Pursuant to Section 489 of the Companies Act 2006, Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Board meeting.

By order of the Board

Douglas Fleming
Director
24th April 2020

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company Law requires the directors to prepare the group and company financial statements for each financial year. Under that law, they have elected to prepare the group and the company's financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law.

Under Company Law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period. In preparing the group and the company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SICCAR POINT ENERGY LIMITED

Opinion

We have audited the financial statements of Siccar Point Energy Limited ('the company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise of the group statement of comprehensive income, the group and company statement of financial position, the group and company statement of changes in equity, the group and company cash flow statements and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of matter

We draw attention to Note 2 and 28 of the financial statements, which describe the economic consequences the company is facing as a result of Covid-19, the associated impact on commodity prices and the going concern consideration thereof. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Jamie Dixon (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
24th April 2020

Group statement of comprehensive income

for the year ended 31 December 2019

	Note	*2019 US $'000*	*2018 US $'000*
Revenue	4	223,755	255,270
Cost of sales		(252,560)	(149,817)
Gross (loss)/profit		(28,805)	105,453
Other operating costs	23	(8,575)	(34,408)
Other income		-	3,509
Administrative expenses		(12,900)	(12,442)
Operating (loss)/profit	5	(50,280)	62,112
Finance income	6	7,339	66,114
Finance expense	7	(65,342)	(44,159)
(Loss)/profit before tax		(108,283)	84,067
Taxation	11	148,433	77,091
Profit for the year		40,150	161,158

All the above results are derived from continuing operations.

There is no comprehensive income other than the profit for the year.

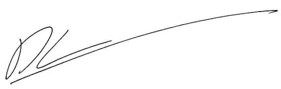
Total comprehensive income for the year is attributable to the owners of the company, as there is no non-controlling interest.

Group statement of financial position

as at 31 December 2019

	Note	*2019*	*2018*
		US $'000	*US $'000*
Non-current assets			
Exploration and evaluation assets	12	352,352	311,967
Property, plant and equipment	13	1,343,004	1,492,215
Deferred tax asset	11	486,762	342,295
Long-term financial assets	15	63,737	89,975
Total non-current assets		2,245,855	2,236,452
Current assets			
Inventories		8,021	1,550
Trade and other receivables	16	62,942	53,354
Cash and cash equivalents	17	275,626	146,199
Total current assets		346,589	201,103
Total assets		2,592,444	2,437,555
Current liabilities			
Trade payables and accrued liabilities	19	(47,231)	(51,843)
Provisions	21	(2,640)	-
Net current assets		296,718	149,260
Non-current liabilities			
Interest-bearing loans	20	(721,693)	(619,939)
Deferred tax liability	11	-	(855)
Long-term financial liabilities	18	(48,988)	(48,457)
Provisions	21	(169,613)	(154,332)
Total liabilities		(990,165)	(875,426)
Net assets		1,602,279	1,562,129
Equity			
Share capital	22	692,607	692,607
Retained profit		909,672	869,522
Total equity		1,602,279	1,562,129

The financial statements were approved by the Board of Directors on 24th April 2020 and were signed on its behalf by



Douglas Fleming
Director

Company statement of financial position

As at 31 December 2019

	Note	2019 US$'000	2018 US$'000
Non-current assets			
Property, plant and equipment		616	27
Investment	14	979,470	979,470
Long-term loan to subsidiaries		469,653	472,693
Long-term financial asset	15	-	1,449
		1,449,739	1,453,639
Current assets			
Trade and other receivables	16	4,891	15,082
Cash at bank		1,865	22,427
Total current assets		6,756	37,509
Total assets		1,456,495	1,491,148
Current liabilities			
Trade payables and accrued liabilities	19	(224,430)	(256,945)
Net current assets		(217,674)	(219,436)
Non-current liabilities			
Interest bearing loan	20	(521,000)	(521,000)
Long term financial liability	18	(48,988)	(46,539)
Total liabilities		(794,418)	(824,484)
Net assets		662,077	666,664
Equity			
Share capital	22	692,607	692,607
Retained deficit		(30,530)	(25,943)
Total equity		662,077	666,664

The company loss for the year was US$4,587 thousand (2018: profit of US$28,735 thousand).

The financial statements were approved by the Board of Directors on 24th April 2020 and were signed on its behalf by

Douglas Fleming
Director

Group statement of changes in equity
for the year ended 31 December 2019

	Share capital	Retained profit	Total equity
	US $'000	*US $'000*	*US $'000*
At 1 January 2018	692,607	708,364	1,400,971
Total comprehensive income for the year	-	161,158	161,158
At 31 December 2018	692,607	869,522	1,562,129
At 1 January 2019	692,607	869,522	1,562,129
Total comprehensive income for the year	-	40,150	40,150
At 31 December 2019	692,607	909,672	1,602,279

Company statement of changes in equity

for the year ended 31 December 2019

	Share capital US$'000	Retained deficit US$'000	Total equity US$'000
At 1 January 2018	692,607	(54,678)	637,929
Total comprehensive profit for the year	-	28,735	28,735
At 31 December 2018	692,607	(25,943)	666,664
At 1 January 2019	692,607	(25,943)	666,664
Total comprehensive loss for the year	-	(4,587)	(4,587)
At 31 December 2019	692,607	(30,530)	662,077

Group cash flow statement
as at 31 December 2019

	Note	2019 US $'000	2018 US $'000
Net cash flow generated from operating activities			
(Loss)/profit before tax from continuing operations		(108,283)	84,067
Adjustments to reconcile (loss)/profit before tax to net cash flows:			
Finance costs (interest on third-party loan and bonds)	7	44,933	38,202
DD&A on development and production assets	13	105,753	117,481
Impairment of production asset	13	99,903	-
Decommissioning changes in estimate		1,476	(3,509)
Unwinding of decommissioning discount	7	3,011	2,972
Decommissioning provision utilised	21	(2,255)	-
Unrealised losses/(gains) on derivative financial instruments	7/6	9,842	(63,296)
Impact of substantial modification on bonds	7	2,525	-
Amortisation of bank arrangement fee		732	189
Depreciation of office equipment and right of use asset	13	197	9
Unrealised net foreign exchange difference		(1,668)	952
Gain on long-term receivable/payable remeasurement		(46)	(19)
Working capital adjustments:			
(Increase)/decrease in inventories		(6,207)	2,538
Decrease in debtors		2,981	48,102
Increase/(decrease) in creditors		632	(10,477)
Income tax receipts		2,887	-
Net cash flows from operating activities		156,413	217,211
Net cash flows used in investing activities:			
Purchase of office equipment	13	(105)	(5)
Expenditure on development and production assets	13	(36,745)	(131,496)
Expenditure on exploration and evaluation assets	12	(43,944)	(47,146)
Net cash flows used in investing activities		(80,794)	(178,647)

Group cash flow statement (continued)

for the year ended 31 December 2019

		2019	*2018*
Net cash flows generated from financing activities:		*US $'000*	*US $'000*
Repayment from borrowing – third-party	24	-	(25,000)
Finance charge on leases		47	-
Proceeds from bonds and bonds issuance (net of charges)	24	99,307	98,750
Interest paid on long-term loan	24	(46,969)	(33,458)
Net cash flows from financing activities		52,385	40,292
Cash and cash equivalents at 1 January		146,199	67,861
Unrealised net foreign exchange difference on cash and cash equivalents		1,423	(518)
Net increase in cash and cash equivalents		128,004	78,856
Cash and cash equivalents at 31 December	17	**275,626**	**146,199**

Company cash flow statement

for the year ended 31 December 2019

	Note	2019	2018
		US $'000	US $'000
Net cash flow generated from operating activities			
(Loss)/profit before tax from continuing operations		(4,587)	28,735
Adjustments to reconcile (loss)/profit before tax to net cash flows:			
Unrealised net foreign exchange difference		928	2,317
Unrealised losses/(gains) on derivative financial instruments		2,519	(675)
Remeasurement of financial liabilities		1,465	(49,643)
Amortisation of bank arrangement fee		810	-
Finance income – subsidiaries loan interest		(32,745)	(27,076)
Finance costs – external loan interest		28,842	29,952
Depreciation of office equipment and right of use asset		197	9
Working capital adjustments:			
Decrease/(increase) in debtors		55	(3,003)
Increase in creditors		18,038	188,588
Net cash flows from operating activities		15,522	169,204
Net cash flows used in investing activities:			
Purchase of office equipment		(105)	(5)
Loan to subsidiaries		-	(134,082)
Net cash flows used in investing activities		(105)	(134,087)
Net cash flows used in financing activities:			
Finance charge on leases		47	-
Interest paid on long term loan		(34,628)	(28,958)
Repayment from borrowing – third-party		-	(25,000)
Net cash flows used in financing activities		(34,581)	(53,958)
Cash and cash equivalents at 1 January		22,427	40,675
Unrealised net foreign exchange difference on cash and cash equivalents		(1,398)	593
Net decrease in cash and cash equivalents		(19,164)	(18,841)
Cash and cash equivalents at 31 December		1,865	22,427

Notes to the financial statements

at 31 December 2019

1. Corporate information

The consolidated financial statements of Siccar Point Energy Limited and its subsidiaries (collectively, the "group") for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 24th April 2020. Siccar Point Energy Limited (the company or the parent), is a private limited company by shares, incorporated and domiciled in the UK. The registered office address of all members in the group is 1 Park Row, Leeds, LS1 5AB.

The group was established in 2014 to build a full cycle, North Sea exploration, development and production business. Information on the group's structure is provided in note 14. Information on other related party relationships of the group is provided in note 25.

2. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the group and the company for the year ended 31 December 2019 and applied in accordance with the practices of the Companies Act 2006. The financial statements have been prepared on a historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives and contingent considerations, as set out in the accounting policies below. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The group financial statements incorporate the financial statements of the company and entities controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Thus, an investor controls an investee if and only if the investor has all of the following:

(a) power over the investee;
(b) exposure, or rights, to variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect the amount of the investor's returns.

The group has decided to take the exemption under section 408 of the Companies Act 2006 not to present a company income statement. The loss recorded by the company for the year ended 31 December 2019 was US$4.6 million (2018: profit of US$28.7 million).

Going concern

The group's business activities, together with the factors likely to affect its future development and position are set out above in the strategic report including the actions taken to mitigate the potential impact of Covid-19.

The company participates in a centralised treasury arrangement and so shares banking arrangements with fellow group companies. The group closely monitors its funding position throughout the year including monitoring continued compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations.

Forecasts are produced regularly along with any related sensitivity analysis to allow proactive management of any business risks including liquidity risk. Using these forecasts and sensitivities along with additional stress testing including a sustained low oil price and interruption to production, the directors are satisfied that they have a reasonable basis upon which to conclude that the group is able to continue as a going concern.

The key factors supporting this are:

- The group is fully hedged for 2020 with 3.9 million barrels hedged at an average hedge price of $67.31/bbl and 1.7 million barrels for 2021 at average price of $62.89/bbl. This substantially mitigates our exposure in this regard.
- With cash at the end of 2019 of US$276 million and undrawn, available Reserve Based Lending (RBL) at 1 January 2020 of US$182 million, the group is well capitalised for the period ahead with total liquidity at the start of 2020 of US$458 million (cash and undrawn, available RBL).

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

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(a) New standards, amendments and interpretations issued and effective during the financial year beginning 1 January 2019 that are relevant to the group:

The company, has considered all new and amended IFRSs issued by the International Accounting Standards Board (IASB), as adopted by the EU, that are mandatorily effective for the year ending 31 December 2019. Where the changes affect the company, the relevant application and disclosure has been made during the year to 31 December 2019. The new and amended IFRSs during the year are as detailed below:

- Annual Improvements to IFRS Standards 2015-2017 Cycle
- IFRS 16: Leases
- IFRIC 23 Uncertainty over Income Tax Treatments

The application of the above standards and amendments did not have any material impact on the company's financial statements.

(b) Standards issued but not yet effective that are relevant to the group:

The following standards and amendments and interpretations to existing standards have been published and are mandatory for the company's accounting period beginning on or after 1 January 2020 or later periods, but the company had not early adopted them:

- References to Conceptual Framework in IFRS Standards (1 January 2020)
- IFRS 7 Financial Instruments: Disclosures. Interest rate benchmark reform (1 January 2020)
- IFRS 9 Financial Instruments. Interest Rate Benchmark Reform
- IAS 1 Presentation of Financial Statements. Definition of material (1 January 2020), References to Conceptual Framework in IFRS Standards and classification of liabilities as current or non-current (1 January 2022)
- IAS 8 Accounting policies, changes in accounting estimates and errors. Definition of material and References to Conceptual Framework in IFRS Standards (1 January 2020)
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement. Interest rate benchmark reform (1 January 2020).

It is not anticipated that the application of the above standards and amendments will have any material impact on the company's financial statements.

(c) Significant accounting judgements, estimates and assumptions

The preparation of the group and company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities, at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the group and company's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

Impairment of non-financial assets – Indicators of impairment

Management applies judgement when working through the process of identifying any potential indicators of impairment relating to the group's property, plant and equipment. A broad range of internal and external factors are considered as part of the indicator review process. Key factors that are considered relate to commodity prices, discount rates, cost profiles and commercial reserves.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(c) Significant accounting judgements, estimates and assumptions (continued)

Share based payments

Share options are granted to certain key employees of subsidiary entities. Share options can only vest upon the completion of an "exit event" which is defined as a sale of the whole share capital of the company's parent company, Siccar Point Energy Luxembourg S.C.A., the sale or transfer of over ninety percent of the group's assets, a stock exchange listing or upon the discretion of the directors.

The measurement of any liability existing at the reporting date in relation to these share options relies to a large degree on the management's judgement of whether an exit event is likely in the foreseeable future, plus management's view of a likely share price at any likely exit event date. In management's view the likelihood of an exit event in the near-term is low.

IFRS 16 Leases – capitalising non-operated joint venture contracts

Where the group participates in a joint operation, either as a lease operator or non-operator party, determining whether to recognise and whether to measure a lease obligation involves judgement and requires identification of which entity has primary responsibility for the lease obligations entered into in relation to the joint operation's activities.

For identified leases entered into by the group on behalf of a joint operation, the group will take the full lease onto the balance sheet as it is management's belief that the group controls the economic output of the equipment it operates. At present there are no such leases.

For leases where the group is a non-operated partner in a joint operation and is not a signatory on the contract, it is management's view that the group does not control the economic output of these assets and therefore will not take a share on the group's balance sheet.

For identified leases where material options exist, the group is taking the approach of including lease options deemed more likely than not to be exercised. There are currently no such lease options. See note 2 (e).

Estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The group and company has based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the group. Such changes are reflected in the assumptions when they occur.

Recoverability of development and production assets

The company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, as well as when assets are transferred from exploration and evaluation to development and production assets (D&P). Individual assets are grouped for impairment purposes at the lowest level at which there are identifiable cashflows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists, the company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its net realisable value and its value in use. When the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing its value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money.

Estimation of oil and gas reserves

Oil and gas reserves and resources used for accounting purposes are estimated using internationally accepted methods and standards. The company's annual oil and gas reserves and resources review process includes input from appropriately qualified third party engineers. All reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(c) Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. Changes in oil and gas reserves are an important indication of impairment, or impairment reversal, and may result in subsequent impairment charges or reversals, as well as affecting the unit-of-production depreciation charge in the income statement.

Provisions

Decommissioning

The company's core activities regularly lead to obligations related to dismantling and removal, asset retirement and soil remediation activities. At the time the obligation arises, it is provided for in full by recognizing the present value of future decommissioning and restoration expenses as a liability. This is calculated using the latest estimates provided by the company's technical staff, which are based upon estimates provided by the field operator where the group is not the operator. These costs are assumed to be eligible for tax relief, based on current tax legislation. An associated decommissioning asset is recognised, which is amortised for each field on a unit-of-production basis in accordance with the company's policy for depletion and depreciation of oil & gas assets. Period charges for changes in the net present value of the decommissioning provision arising from the unwinding of the discount are included in interest expense (see note 21).

Provision for expected credit losses of trade receivables

The group monitors the recoverability of trade receivable balances for expected credit losses on a monthly basis. The group has not provided detailed information on how the determination of ECLs has been made because the impact is not significant. There are currently no ECLs forecast or provided for.

(d) Summary of significant accounting policies

Investments in subsidiaries

The company's investment in subsidiaries is accounted for under the cost method of accounting. A subsidiary is an entity over which the company has control. Control is achieved when the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Income from the investment is recognised only to the extent that the investor receives distributions from accumulated profits of the subsidiary arising after the date of the acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognised as a reduction of the cost of investment.

The carrying values of investments in subsidiaries are reviewed for impairment in accordance with IAS 36 Impairment of Assets. If events or changes in circumstances indicate a carrying value may not be recoverable, an investment carrying value is written down immediately to its recoverable amount. A previously recognised impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the investment's recoverable amount. If this is the case, the carrying amount of the investment is increased to its recoverable amount, except insofar as the reversal of an impairment loss shall not exceed the original cost of the investment.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(d) Summary of significant accounting policies (continued)

Office equipment, oil and natural gas exploration and evaluation, development and production expenditure

Exploration and evaluation costs - Capitalisation

Pre-licence costs and geological and geophysical exploration costs incurred prior to obtaining the rights to explore are recognised in the income statement when incurred. Exploration licences are recognised as an exploration and evaluation ("E&E") asset. The cost of that licence includes the directly attributable costs of its acquisition. Examples of such costs may include non-refundable taxes and professional and legal costs incurred in obtaining the licence. Costs incurred after the rights to explore have been obtained, such as geological and geophysical costs, drilling costs, appraisal and development study costs and other directly attributable costs of exploration and evaluation activity, including technical and administrative costs for each exploration asset, are capitalised as intangible exploration and evaluation assets. E&E costs are not amortised prior to the conclusion of appraisal activities.

At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered at each field level then the carrying value of the relevant E&E asset is reclassified as development & production (D&P) assets. This category reclassification is only performed after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. If commercial reserves are not discovered at the completion of appraisal activity of each asset and it is not expected to derive any future economic benefits, the E&E asset is written off to the income statement.

Development and production costs – capitalisation

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas assets.

Property, plant and equipment

Property, plant and equipment – general

The cost of property, plant and equipment is written off by equal monthly instalments over the expected useful lives as follows:

Office equipment 3 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Development and production assets

Oil and gas in the development and production phase and other related assets are stated at cost, less accumulated depreciation and accumulated impairment losses (net of reversal of previously recognised impairment losses, if any). The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of the decommissioning obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas properties are depreciated on a unit-of-production basis over the proved and probable ("2P") reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date, together with estimated future development expenditure. Depreciation on oil and gas properties does not commence until the commencement of production from the property.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(d) Summary of significant accounting policies (continued)

Office equipment, oil and natural gas exploration and evaluation, development and production expenditure (continued)

Development and production assets - Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised. Where an asset or part of an asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced asset (or asset part) which is immediately written off. Inspection costs associated with major maintenance programs are capitalised when the recognition criteria are met and amortised over the period to the next inspection. Day to day servicing and maintenance costs are expensed as incurred.

Development and production assets - Capital work in progress

Capital work in progress is included in property, plant and equipment at cost on the basis of the percentage completed at the reporting date. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the above policies when construction of the asset is completed and commissioned.

Joint arrangements

The group's exploration, development and production activities are generally conducted in jointly controlled operations with other companies. The group recognises its share of the jointly controlled assets and liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, income from the sale or use of its share of the joint operations output, together with its share of the expenses incurred by the joint operations, and any expenses it incurs in relation to its interest in the joint operations and a share of production. The company combines its share of the jointly controlled assets and liabilities, income and expenses of the jointly controlled assets with similar items, line by line, in its consolidated financial statements.

Functional currency

The group and company's financial statements are presented in US Dollars, which is also the company's functional currency.

Foreign currencies

Transactions in other currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Fair value of financial instruments

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics. With the exception of trade receivables that do not contain a significant financing component, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at transaction price.

The group has used derivative financial instruments as economic hedges to reduce certain exposures to commodity price risk, cash flow interest rate risk and foreign currency exchange risk. These include commodity hedging, forward currency contracts and interest rate swaps. Derivative financial instruments are held at fair value in the Statement of financial position with valuation gains or losses (unrealised gains/ losses) shown as finance income or expenses in the Statement of comprehensive income. Gains and losses arising from settlement of derivative instruments (realised gains/ losses) are recoded under operating costs/ income.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(d) Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

The group's valuation strategies for financial instruments utilise, as far as possible, quoted prices on an active market. Valuations fall into 3 levels in the fair value hierarchy:

Level 1 – utilises quoted prices on an active market for an identical asset or liability

Level 2 – utilises quoted prices on an active market for similar products or derives the valuation from other observable inputs

Level 3 – where a market price for similar product is not observable, the valuation uses inputs based on internal models or other valuation techniques

Financial assets and liabilities, other than derivative financial instruments, are held at amortised cost, which approximates their fair value.

Impairment of financial assets

The group will recognise an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through the income statement. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive.

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 will use its credit loss experience. The group has an immaterial credit loss

The group considers a financial asset in default when contractual payments are significantly past due date. 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other receivables

A receivable represents the group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment is due). Trade and other receivables are shown at transaction price less any expected credit loss. A provision is made when there is an expected credit loss. Balances are written off when the probability of recovery is assessed as being remote.

Revenue from contracts with customers

The group is in the North Sea exploration, development and production business. Revenue associated with the sale of crude oil, gas and natural gas liquids and other items are recognised at a point in time when the title passes to the customer upon delivery. Transaction price represents the contract and market price plus any pricing adjustments in relation to quality adjustments.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(d) Summary of significant accounting policies (continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified between current liabilities and non-current liabilities.

Current and deferred income tax

The tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current tax

Current tax is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(b) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Inventories

Inventories comprise all assets that are held for sale in the ordinary course of business, materials and supplies that will be consumed in such a production process. Supplies refer to materials that do not directly enter the production process. Furthermore, supplies include spare parts not yet placed in operation, if they do not meet the requirements to be classified as property, plant & equipment. Inventory is held at the lower of cost and net realisable value.

Contingent consideration

Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the income statement (finance income/expenses) in accordance with IFRS 9. Other consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the income statement.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(d) Summary of significant accounting policies (continued)

Share based payment

The group has a share option scheme in place whereby the Board may grant share options in Siccar Point Energy Luxembourg SCA (“Luxco”) (the ultimate holding company of the Company) to employees (all of whom are employed in underlying subsidiaries).

The option exercise price shall be determined by the directors at the time of granting the option and shall not be less than the nominal value of a share.

Share options can only vest upon the completion of an “exit event” which is defined as a sale of the whole share capital of Luxco, the sale or transfer of over ninety percent of the group’s assets or a stock exchange listing. This is a non-market performance vesting condition, rather than a non-vesting condition because the employees are not entitled to the shares after leaving the subsidiary company.

As with any award dependent on a non-market vesting condition an expense would be recognised only to the extent that the award is considered likely to vest.

IFRS 16 Leases

Accounting policy applicable from 1 January 2019

The group assess at contract inception all arrangements to determine whether it is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The group is not a lessor in any transactions, it is only a lessee.

The group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. See note 2(e)

a) Right-of-use assets

The group recognises right-of-use (ROU) assets at the commencement date of the lease. ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU 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. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

b) Lease liabilities

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 the interest rate implicit in the lease and if not readily determinable its incremental borrowing rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Financial risk management

Credit risk

Credit risk is the risk that a counter-party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and other financial institutions.

For the company’s non-operated interests, payments to suppliers occur only after goods and services have been received.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the company's liquidity and cash and cash equivalents on the basis of expected cash flow.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(d) Summary of significant accounting policies (continued)

Financial risk management (continued)

Financial risk factors

The company's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk, commodity price risk and interest rate risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, non-derivative financial instruments and investment of excess liquidity.

Commodity price risk

The company is exposed to commodity price risk on all crude oil and gas sales, but management have taken the decision to limit this exposure by the use of derivative financial instruments. Oil and gas hedging is undertaken using commodity contracts in the form of oil swaps and zero cost collars and gas swaps.

Commodity price risk associated with gas sales is limited to two long-term sales agreements for the Schiehallion and Jade Assets.

Interest rate risk

The company is exposed to interest rate risk through borrowings, however, this is reduced due to funds borrowed at fixed interest rates.

Market risk - foreign exchange risk

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and GBP. Foreign exchange risks arise from future commercial transactions and recognised assets and liabilities.

The majority of foreign currency transactions are denominated in GBP. As a result there is foreign exchange risk, however, the company does review its exposure to transactions denominated in other currencies and takes necessary action to minimise this exposure.

Currency risk is managed by matching costs with income as far as possible.

Notes to the financial statements (continued)

at 31 December 2019

2. Accounting policies (continued)

(d) Summary of significant accounting policies (continued)

Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the company maintains capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. The gearing ratio at 31 December for the group was as follows:

	2019	*2018*
	US $'000	*US $'000*
Total borrowings (note 20)	721,693	619,939
Add: lease liabilities	687	-
Add: current accrued interest on third party loan (note 19)	8,529	10,565
Less: cash and cash equivalents (note 17)	(275,626)	(146,199)
Net debt	455,283	484,305
Total equity plus net debt/cash	2,057,562	2,046,434
Gearing ratio %	22%	24%

Fair value estimation

The carrying value of trade and other payables are assumed to approximate their fair values because the effect of discounting liabilities is negligible. For the assets carrying amount is a reasonable approximation of the fair value.

(e) Changes in accounting policies and disclosures

New and amended standards and interpretations

IFRS 16 Leases

Using the IFRS 16 criteria the group identified its office leases as fitting the definition of a lease and as such they have been capitalised under the guidelines of the standard. See note 2 c) and d) for further details.

Under IFRS 16, all lease contracts, with limited exceptions, are recognised in financial statements by way of right-of-use assets and corresponding lease liabilities. The group applied the modified retrospective transition method without restating comparative information.

Notes to the financial statements (continued)

at 31 December 2019

3. Segment information

All of the group's assets and operations are located in the North Sea. For management purposes, the group is organised into one operating segment: the exploration for, extraction and production of hydrocarbons in the North Sea.

The Chief Executive Officer monitors the operating results of the group on a consolidated basis. The group's financing (including finance costs and finance income) and income taxes are also managed on a consolidated basis.

Revenue from one customer amounted to US$202 million (2018: US$235 million) arising from the sale of oil.

4. Revenue

	2019 *US $'000*	*2018* *US $'000*
Oil sales	215,515	237,906
Gas sales	7,323	15,783
NGL sales	917	1,581
	223,755	255,270

5. Operating (loss)/profit

This is stated after charging:

	2019 *US $'000*	*2018* *US $'000*
Depreciation, depletion and amortisation (note 13)	105,949	117,490
Impairment of production asset (note 13)	99,903	-
Operating lease	-	141
Auditors' remuneration (note 8)	419	344

6. Finance income

	2019 *US $'000*	*2018* *US $'000*
Bank interest and other income	5,671	2,561
Derivative financial instruments – mark to market (unrealised) (note 23)	-	63,296
Foreign exchange gains	1,668	257
	7,339	66,114

Notes to the financial statements (continued)

at 31 December 2019

7. Finance expense

	2019 US $'000	*2018 US $'000*
Interest on third party loan and bond (note 24)	44,933	38,202
Unwinding of decommissioning discount (note 21)	3,011	2,972
Derivative financial instruments – mark to market (unrealised) (note 23)	9,842	-
Impact of substantial bond modification	2,525	-
Other fees	4,191	2,032
Foreign exchange loss	840	953
	65,342	44,159

8. Auditors' remuneration

During the year the group received the following services from the company's auditor as detailed below:

	2019 US $'000	*2018 US $'000*
Audit of financial statements	198	176
Other assurance services	19	17
Taxation compliance services	26	40
Taxation advisory services	176	110
	419	344

9. Staff costs

	Group	*Company*	*Group*	*Company*
	2019 US $'000	*2019 US $'000*	*2018 US $'000*	*2018 US $'000*
Staff costs:				
- salaries	7,810	7,810	7,733	7,733
- social security costs	1,054	1,054	1,026	1,026
- pension costs	858	858	856	856
	9,722	9,722	9,615	9,615

The average number of persons employed by the group and the company during the year was: 38 (2018: 37).

The company operates a defined contribution plan, whereby the company contributes monthly to a group Personal Pension scheme administered by Scottish Widows.

Notes to the financial statements (continued)

at 31 December 2019

10. Directors' remuneration

The following remuneration of the directors has been borne by the group:

	2019 US $'000	*2018 US $'000*
Aggregate remuneration in respect of qualifying services	1,480	1,420
Employer contributions paid into pension schemes or to the director in lieu of pension scheme contributions	134	136
	1,614	1,556

None of the directors received shares in respect of qualifying services.

Highest paid director is as follows:

	2019 US$'000	*2018 US$'000*
Wages and salaries	557	534
Pension costs	51	52
	608	586

All executive directors were employed and remunerated by the company. The directors are also directors of other subsidiary undertakings and do not believe it is practicable to apportion their remuneration between services as directors of the company and their services as directors of fellow subsidiaries.

11. Tax

a) Tax credited to the income statement

	Group 2019 US $'000	*Group 2018 US $'000*
Current tax		
Tax credit from prior years	(3,111)	-
Total current tax	(3,111)	-
Deferred tax		
Current year deferred tax	(149,696)	(70,649)
Prior year adjustments	4,374	(6,442)
Total deferred tax	(145,322)	(77,091)
Tax per income statement	(148,433)	(77,091)

Notes to the financial statements (continued)

at 31 December 2019

11. Tax (continued)

b) Reconciliation of total income tax credit

Factors affecting total income tax credit for the current period.

The credit for the year can be reconciled to the profit per the income statement as follows:

	Group 2019 US $'000	*Group 2018 US $'000*
(Loss)/profit before tax	(108,283)	84,067
Ring fenced rate of corporation tax in the UK (2019: 40%/2018: 40%)	(43,313)	33,627
Expenses not deductible for tax purposes	7,528	-
Supplementary corporation tax non-deductible expenditure	-	1,763
Income not taxable	-	(9,928)
Ring-fenced expenditure supplement	(95,818)	(84,249)
Income taxable/expenditure deductible at higher or lower rates	1,027	(5,959)
Impact of investment allowance	(19,771)	(9,944)
Prior year adjustments	1,263	(6,442)
Amounts not recognised	651	4,041
Income tax credit to income statement	(148,433)	(77,091)

	Group 2019 US $'000	*Group 2018 US $'000*
Net deferred tax (assets)/ liabilities		
Opening balance	(341,440)	(264,349)
Deferred tax credit to income statement for the year	(145,322)	(77,091)
Deferred tax assets at end of year	(486,762)	(341,440)
Accelerated capital allowance	643,691	671,856
Decommissioning provision	(67,845)	(60,732)
Investment allowance	(47,644)	(27,873)
Derivative financial instruments	14,406	14,958
Tax losses (deferred tax impact)	(1,029,370)	(939,649)
Net deferred tax assets at end of year	(486,762)	(341,440)

Status of group's ring-fenced trading losses:

Corporation tax (CT)	2,635,000	2,397,394
Supplementary corporation tax (SCT)	2,388,696	2,204,302

Deferred tax assets are recognised to the extent the future benefit from the underlying assets is probable.

The company has outside ring fenced tax losses amounting to US$11.2 million that are available for offset against future taxable profits. Deferred tax assets amounting to US$1.9 million (@17% tax rate) in respect of tax losses carried forward have not been recognised as there is insufficient evidence that the asset will be recovered.

Notes to the financial statements (continued)

at 31 December 2019

12. Exploration and evaluation assets

	US $'000
Cost:	
At 1 January 2018	266,787
Additions	47,146
Changes in decommissioning estimate	(1,966)
At 31 December 2018	311,967
Amounts written off:	
At 1 January 2018	-
At 31 December 2018	-
Cost:	
At 1 January 2019	311,967
Additions	43,944
Changes in decommissioning estimate	(3,559)
At 31 December 2019	352,352
Amounts written off:	
At 1 January 2019	-
At 31 December 2019	-
Net book value amounts:	
At 31 December 2018	311,967
At 31 December 2019	352,352

Notes to the financial statements (continued)

at 31 December 2019

13. Property, plant and equipment

	Right of use assets	*Office equipment*	*Oil & Gas assets*	*Total*
	US $'000	*US $'000*	*US $'000*	*US $'000*
Cost:				
At 1 January 2018	-	164	1,533,283	1,533,447
Additions	-	5	131,496	131,501
Change in decommissioning estimate	-	-	2,188	2,188
At 31 December 2018	-	169	1,666,967	1,667,136
Additions	680	105	36,745	37,530
Change in decommissioning estimate	-	-	19,111	19,111
At 31 December 2019	680	274	1,722,823	1,723,777
Depreciation, depletion and amortisation:				
At 1 January 2018	-	(133)	(57,298)	(57,431)
Charge for the year	-	(9)	(117,481)	(117,490)
At 31 December 2018	-	(142)	(174,779)	(174,921)
Impairment	-	-	(99,903)	(99,903)
Charge for the year	(159)	(37)	(105,753)	(105,949)
At 31 December 2019	(159)	(179)	(380,435)	(380,773)
Net book value amounts:				
At 31 December 2018	-	27	1,492,188	1,492,215
At 31 December 2019	521	95	1,342,388	1,343,004

The right of use assets refers to the recognition of the head office lease under IFRS 16.

Impairment testing has been carried out with reference to the field and price assumptions used in the Competent Person's Reports prepared by the group's independent reserves auditors as at 31 December 2019.

During 2019 there was a pre-tax impairment of US$99.9 million to property, plant and equipment relating to the Schiehallion field. This was largely driven by a reduction in the group's assumption of future commodity prices.

For impairment testing, the group has used a post-tax discount rate of 8%. Other assumptions (including oil price) were per the group's independent reserves auditors. The long-term oil price used was US$68/bbl. The GBP/USD exchange rate used was 1.30.

Sensitivity analysis for this asset indicate that if oil price was to fall by 10% then this would lead to a further pre-tax impairment of US$126.5 million. An increase in the discount rate by 1% would lead to a further pre-tax impairment of US$41.6 million.

Notes to the financial statements (continued)

at 31 December 2019

14. Investments

The company's direct subsidiary undertakings at 31 December 2019 are as follows:

Name of undertaking	Country of registration	Proportion of voting rights and shares held	Nature of business
Siccar Point Energy U.K. Limited	England	100%	Oil & Gas Exploration, Development & Production
Siccar Point Energy E&P Limited	England	100%	Oil & Gas Exploration, Development & Production
Siccar Point Energy Bonds PLC	England	100%	Financing vehicle

The subsidiaries listed above all have their registered office at 1 Park Row, Leeds, LS1 5AB.

Company investment summary

	US $'000
Cost	
At 1 January 2018	979,403
Additions	67
At 31 December 2018	979,470
At 1 January 2019	979,470
Additions	-
At 31 December 2019	979,470

Notes to the financial statements (continued)

at 31 December 2019

15. Long-term financial assets

	Group 2019 US $'000	*Company 2019 US $'000*	*Group 2018 US $'000*	*Company 2018 US $'000*
Derivative financial instruments (note 23)	15,733	-	37,807	1,449
Contingent consideration receivable	48,004	-	52,168	-
	63,737	-	89,975	1,449

The contingent consideration receivable is in relation to divestment in Rosebank (note:18) and is linked to the final investment decision to develop the asset in question.

16. Trade and other receivables

	Group 2019 US $'000	*Company 2019 US $'000*	*Group 2018 US $'000*	*Company 2018 US $'000*
Trade receivables	-	-	1,137	-
Accrued income	19,434	-	26,316	-
Amount owed by group undertakings	7,714	-	6,538	-
Deposits and prepayments	5,350	4,891	5,670	5,670
Interest receivable on loan to subsidiaries	-	-	-	9,386
Advances to joint venture partners	1,911	-	1,115	-
Other receivables	-	-	130	26
Contingent consideration receivable	5,939	-	-	-
NGL under lift	405	-	346	-
Derivative financial instruments (note 23)	22,189	-	12,102	-
	62,942	4,891	53,354	15,082

The contingent consideration receivable in relation to divestment in Jackdaw and is linked to the final investment decision to develop the asset in question.

17. Cash and cash equivalents

	Group 2019 US $'000	*Group 2018 US $'000*
Cash at bank	275,626	146,199

The directors consider that the carrying amount of cash and cash equivalents approximate their fair value.

Notes to the financial statements (continued)

at 31 December 2019

18. Long-term financial liabilities

	Group	*Company*	*Group*	*Company*
	2019	*2019*	*2018*	*2018*
	US $'000	*US $'000*	*US $'000*	*US $'000*
Leases	355	355	-	-
Derivative financial instruments (note 23)	629	629	1,918	-
Contingent consideration payable (note 15)	48,004	48,004	46,539	46,539
	48,988	48,988	48,457	46,539

In 2016 OMV (U.K.) Limited (now Siccar Point Energy E&P Limited) sold a 30% working interest in the Rosebank discovery to Suncor. As a part of the overall consideration Suncor undertook to make a cash payment to OMV (U.K.) Limited when the Rosebank project was sanctioned. The later the sanction date the lower the payment. As a part of the group's acquisition of OMV (U.K.) Limited in 2017 the group agreed to pass through this cash receipt when it is received.

19. Trade payables and accrued liabilities

	Group	*Company*	*Group*	*Company*
	2019	*2019*	*2018*	*2018*
	US $'000	*US $'000*	*US $'000*	*US $'000*
Trade creditors and leases	366	299	5,600	5,600
Accruals	1,223	1,217	-	806
Joint venture payables	13,671	-	11,838	-
Oil over-lift	658	-	487	-
Accrued interest on third-party loan	1,029	1,029	6,815	6,815
Accrued interest on bond	7,500	-	3,750	-
Amount owed to group undertakings	-	221,444	-	243,724
Derivative financial instruments (note 23)	1,510	441	2,366	-
Joint venture working capital	21,274	-	20,987	-
	47,231	224,430	51,843	256,945

Notes to the financial statements (continued)

at 31 December 2019

20. Interest-bearing loans

	Group 2019 US $'000	*Company 2019 US $'000*	*Group 2018 US $'000*	*Company 2018 US $'000*
Third-party loan	521,000	521,000	521,000	521,000
Third-party bond	200,693	-	98,939	-
	721,693	521,000	619,939	521,000

The third-party loan relates to a bank loan with a syndicate of banks. It is an RBL facility of US$800 million with US$521 million currently drawn. Accrued interest as at 31 December 2019 is US$1.0 million (2018: US$6.8 million).

On 19 March 2019, the group completed a tap issue to the bond issued in January 2018. The tap issue of US$100 million was over-subscribed with an issue price of US$201,500 per bond (a premium of 1.75% to the par value). The 9.0% unsecured callable 2018/2023 bonds are listed on Nordic ABM, a marketplace regulated by Oslo Børs. Accrued interest as at 31 December 2019 is US$7.5 million (2018: US$3.8 million). Bonds are recorded at fair value less transaction costs. The tap issue has been accounted for as a substantial modification of the original issuance of the Bonds, see note 7 for financial impact.

The group fully complied with all external capital requirements.

21. Provisions

	Decommissioning US $'000	*Contingent Consideration US $'000*	*Total US $'000*
At 1 January 2018	152,145	2,633	154,778
New estimate	9,908	-	9,908
Disposal	(1,818)	-	(1,818)
Change in estimate	(2,972)	16	(2,956)
Exchange differences	(8,404)	(148)	(8,552)
Unwinding of discount	2,972	-	2,972
At 31 December 2018	151,831	2,501	154,332
New estimate	14,143	-	14,143
Provision utilised	(2,255)	-	(2,255)
Change in estimate	(3,437)	38	(3,399)
Exchange differences	6,320	101	6,421
Unwinding of discount	3,011	-	3,011
At 31 December 2019	169,613	2,640	172,253

Notes to the financial statements (continued)

at 31 December 2019

21. Provisions (continued)

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas interests in the UK which are expected to be incurred up to 2055. These provisions have been created based on the group's internal estimates and, where available, operator estimates. Based on the current economic environment, assumptions have been made which are believed to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain. A discount rate of 2.0 per cent and an inflation rate of 2.0 per cent have been applied to all decommissioning estimates when determining the net present value of the decommissioning provision. Rig rates used to determine the relevant part of the decommissioning cost estimates are based on the future price for similar types of rigs. The oil and gas price assumptions used to determine the cessation of production are consistent with those applied for the impairment assessment.

The contingent consideration relates to an exploration and evaluation prospect, which becomes payable if approval for development is provided by the Secretary of State, which the directors believe is still probable.

22. Share capital

The company has two classes of ordinary shares:

	2019	*2018*
Authorised		
Ordinary shares of $1 each	692,606,726	692,606,726
Ordinary share of £1 each	1	1

	$1 shares	*£ shares*	*Total*
Allotted, called up and fully paid	*US$*	*US$*	*US$*
At 1 January 2019	692,606,726	2	692,606,728
At 31 December 2019	692,606,726	2	692,606,728
At 31 December 2018	692,606,726	2	692,606,728

Notes to the financial statements (continued)

at 31 December 2019

23. Derivative financial assets and liabilities

The group's principal financial liabilities, other than derivative financial instruments (derivatives), are comprised of trade payables, third-party loan, third-party bond and contingent consideration payable. Trade payables and accruals of US$15million are expected to be settled within the next year. JV working capital will unwind over the life of the JV with no specific maturity date. The third-party loan relates to a bank loan with a syndicate of banks and does not currently have a specific maturity date. An amount of US$200 million is due for repayment in 2023 in relation to the third party bond. The main purpose of these financial liabilities is to manage short-term cash flow and to raise finance for the group's capital expenditure programme. The group has various financial assets such as trade receivable, advances to partners and cash at bank, which arise directly from its operations

The main risks that could adversely affect the group's financial assets, liabilities or future cash flows are commodity price risk, interest rate risk, foreign currency exchange risk, credit risk and liquidity risk. The group uses derivatives to reduce certain risk exposures to manage this liquidity risk.

a) Statement of financial position as at 31 December 2019 (and 2018)

	2019 US $'000	*2019 US $'000*	*2019 US $'000*
Type of derivative	*Current*	*Non-current*	*Total*
FX ($/£) forward contracts	2,745	579	3,324
Brent swaps and zero cost collars	13,683	11,859	25,542
Gas swaps	5,761	3,295	9,056
Interest rate swaps (US LIBOR)	-	-	-
Total assets	**22,189**	**15,733**	**37,922**
Brent swaps and zero cost collars	(1,069)	**-**	(1,069)
Gas swaps	-	-	-
Interest rate swaps	(441)	(629)	(1,070)
Total liabilities	**(1,510)**	**(629)**	**(2,139)**
Total	**20,679**	**15,104**	**35,783**

	2018 US $'000	*2018 US $'000*	*2018 US $'000*
Type of derivative	*Current*	*Non-current*	*Total*
FX ($/£) forward contracts	994	527	1,521
Brent swaps and zero cost collars	8,935	33,173	42,108
Gas swaps	2,173	2,658	4,831
Interest rate swaps (US LIBOR)	-	1,449	1,449
Total assets	**12,102**	**37,807**	**49,909**
Brent swaps and zero cost collars	(1,857)	**-**	(1,857)
Gas swaps	(509)	(171)	(680)
Foreign exchange ($/£) forward contracts	-	(1,747)	(1,747)
Total liabilities	**(2,366)**	**(1,918)**	**(4,284)**
Total	**9,736**	**35,889**	**45,625**

Notes to the financial statements (continued)

at 31 December 2019

23. Derivative financial assets and liabilities (continued)

b) Income statement impact from derivatives

	2019 US $'000	*2018 US $'000*
Type of derivative		
Brent swaps and zero cost collars	(13,688)	(41,606)
Gas swaps	3,741	(878)
Foreign exchange ($/£) forward contracts	1,046	6,611
Interest rate swaps (US LIBOR)	326	1,465
Total loss from hedging	**(8,575)**	**(34,408)**

Net Income statement impact from hedging	*2018 US $'000*	*2017 US $'000*
Realised loss from hedging	(8,575)	(34,408)
Unrealised gain/(loss) from hedging (note 6/7)	(9,842)	63,296
Total net (loss)/gain from hedging	**(18,417)**	**28,888**

c) Commodity contracts

The group uses derivatives to manage its exposure to oil and gas price fluctuations.

Oil and gas hedging is undertaken using swaps and zero cost collar options. Oil is hedged using Dated Brent oil price options and Gas is hedged using NBP Heren Day Ahead price options.

A total of 3 million barrels of 2019 Brent production (2018: 3 million barrels), was hedged via swaps and zero cost collars, with a volume weighted average price of US$62.11/bbl (2018: US$55.64/bbl). Losses totalling US$13.7 million (2018: Loss US$41.6 million) were included in other operating income/(costs) in the income statement in respect of these hedges.

A total of 15.8 million therms of 2019 gas production (2018: 7.9 million therms), was hedged via swaps, with a volume weighted average price of 64.38 pence per therm (2018: 54.22 pence per therm). Gains totalling US$3.7 million (2018: loss US$0.9 million) were included in the income statement in respect of these swaps.

d) Foreign currency contracts

The group has entered into various forward currency contracts to hedge its exposure in US Dollars to operating and capital expenditure in Sterling. These contracts resulted a realised gain of US$1.0 million recognised in the income statement for the year ended 31 December 2019 (2018: gain of US$6.6 million).

e) Interest rate swap

The group's exposure to interest rates is in respect of the third party loan which is linked to US LIBOR. A substantial portion of the current drawings has been converted to fixed interest rates using the interest rate swap market.

During the year ended 31 December 2019, the group participated in an interest rate swap which effectively swapped in the region of 50% of floating US LIBOR rate interest on the third party loan into a fixed rate of 2.18% until the end of 2019. The swap has a net fair value gain of US$0.3 million in the income statement (2018: gain of US$1.5 million).

Notes to the financial statements (continued)

at 31 December 2019

23. Derivative financial assets and liabilities (continued)

f) Fair value

The company considers that the carrying amount of assets and liabilities approximates their fair value.

The only financial assets and liabilities measured at fair value are derivative financial instruments and contingent consideration receivable and payable. Derivatives are deemed to be Level 2 and the contingent consideration is deemed to be Level 3 within the Fair Value hierarchy, there were no transfers between levels during the year.

The fair value of the contingent consideration has been estimated using a DCF model. The valuation requires management to make certain assumptions, including forecast cash flows and discount rates. The probabilities of the estimate can be reasonably assessed and are used in management's estimate of fair value for the contingent consideration.

24. Changes in liabilities arising from financing activities

	1 January 2019	*Cash flows*	*Interest accrual/ accretion*	*Bank arrangement fee accretion*	*Bond modification impact*	*31 December 2019*
	US $000	*US $000*	*US $000*	*US $000*	*US $000*	*US $000*
Current interest-bearing loans and borrowings (note 19)	10,565	(46,969)	44,933	-	-	8,529
Non-current interest-bearing loans and borrowings (note 20)	619,939	99,307	-	(78)	2,525	721,693
Total liabilities from financing activities	630,504	52,338	44,933	(78)	2,525	730,222

	1 January 2018	*Cash flows*	*Interest accrual*	*Bank arrangement fee accretion*	*31December 2018*
	US $000	*US $000*	*US $000*	*US $000*	*US $000*
Current interest-bearing loans and borrowings (note 19)	5,821	(33,458)	38,202	-	10,565
Non-current interest-bearing loans and borrowings	546,000	73,750	-	189	619,939
Total liabilities from financing activities	551,821	40,292	38,202	189	630,504

Notes to the financial statements (continued)

at 31 December 2019

25. Related party transactions

Directors of the company are also key management personal of the company. Compensation of key management personnel of the group is disclosed in directors' remuneration section of accounts - see note 10.

The group has had transactions with related parties of US$7.7 million (2018: US$6.5 million), the balance is receivable on demand – see note 16.

The company has had transactions with related parties of US$221.4 million (2018: US$243.7 million), the balance is repayable on demand – see note 19.

There have been no other transactions with the Board of Directors, Executive Board, Executive Officers, significant shareholders or other related parties during the period.

26. Operating lease commitments

The group has entered into two commercial property leases in relation to the Aberdeen office. These leases will expire in March 2022. The directors do not believe these leases represents a finance lease, as 3-5 years does not represent the major part of the economic life of the underlying asset, nor is there an option to purchase. For 2019 the operating lease commitments have been brought on balance sheet, see note 2(e).

Future minimum lease payments under non-cancellable operating leases for the Aberdeen office:

	2019	2018
	US $'000	*US $'000*
Payable within 1 year	-	227
Payable between 1 and 5 years	-	510
Total future minimum lease commitments	-	737

27. Capital commitments

	2019	*2018*
	US $'000	*US $'000*
Contracted for but not provided in the financial statements:		
Share of capital commitments	80,820	69,121

The above relates to major contractual commitments for exploration and development activities on the Rosebank, Schiehallion, Mariner and Cambo fields.

28. Post Balance Sheet events

Effective 9 January 2020 the Lyon exploration acreage north of the Shetland Islands was relinquished.

In Q1 2020 the Covid-19 pandemic resulted in a sharp fall in global crude prices in addition to significant commodity market volatility relating to the global supply of oi. The group is fully hedged for 2020 with 3.9 million barrels hedged at an average hedge price of $67.31/bbl and 1.7 million barrels for 2021 at average price of $62.89/bbl. This substantially mitigates our exposure in this regard.

Notes to the financial statements (continued)

at 31 December 2019

28. Post Balance Sheet events (continued)

As a result of the Covid-19 pandemic on 30 March the Cambo partners announced that, following discussions with the UK regulator the Oil and Gas Authority the project would not be sanctioned in 2020. This will now be targeted for the second half of 2021, subject to approval of the necessary licence extension, a request for which has been submitted to the Oil and Gas Authority. Cambo remains a very strong project with excellent economics and the group plans to continue to work with existing key supply chain partners over the coming period to ready the project for FID next year.

The Covid-19 pandemic has not had any impact on the group's current production operations. As a precaution, on the Mariner platform drilling was temporarily suspended in order to reduce the number of personnel and flights. This in turn reduces the risk of a widespread outbreak offshore interrupting production operations. As at 15th April 2020, Equinor has restarted drilling operations on the Noble Lloyd Noble jack-up rig at Mariner, with the platform rig expected to restart in July 2020.

The group considers the emergence and spread of Covid-19 to be a non-adjusting post balance sheet event as there was no disruption to the market, customers, employees or supply chain prior to the year end. Given the inherent uncertainties, it is not practicable at this time to determine the full impact of Covid-19 on the group or to provide a quantitative estimate of this impact.

29. Share-Based Payments

The group has a share option scheme in place whereby the Board may grant share options in Siccar Point Energy Luxembourg SCA ("Luxco") to certain employees (all of whom are employed in underlying subsidiaries).

The option exercise price shall be determined by the directors at the time of granting the option and shall not be less than the nominal value of a share.

Share options have no expiry date and can only vest upon the completion of an "exit event". This is defined as a sale of the whole share capital of Luxco, the sale or transfer of over ninety percent the assets, a stock exchange listing or upon the discretion of the directors.

As with any award dependent on a non-market vesting condition, an expense would be recognised only to the extent that the award is considered likely to vest.

At the date of signing these financial statements, the directors have concluded that there are no indicators of an exit event being probable in the near future and are not likely to use their discretion to determine that an option holder may exercise their option.

Movements during the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2019	**2019**
	No.	WAEP
Outstanding at 1 January	19,000	US$0.0251
Granted during the year	17,444	US$0.0251
Forfeited during the year	nil	n/a
Outstanding at 31 December	36,444	US$0.0251

30. Ultimate parent

The company's immediate parent undertaking is Siccar Point Energy Finance Limited, a company incorporated in the United Kingdom.

The company's ultimate parent undertaking is Siccar Point Energy Luxembourg S.C.A. a company registered in Luxembourg.