Registered No. 3947050

Marubeni Oil & Gas (U.K.) Limited

Report and Financial Statements

31 December 2020

Contents

Registered No. 3947050

Company information

Directors
G Nienow
I Suzuki
T Morita

Secretary
T Morita

Auditors
Ernst & Young LLP
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London SE1 2AF

Bankers
HSBC Bank PLC
8 Canada Square
London E14 5HQ

Registered Office
95 Gresham Street
London, EC2V 7AB

Strategic report

The Directors present their strategic report for the year ended 31 December 2020.

Business review

The company is engaged in the production of oil and gas through its participation in non-operated fields located in the United Kingdom North Sea. The principal assets of the company are MonArb (comprising the Montrose, Arbroath, Arkwright, Brechin, Carnoustie, Wood, Godwin, Cayley and Shaw fields).

In March 2020, OPEC and non-OPEC allies (OPEC+) met to discuss the need to cut oil supply to balance oil markets in the wake of the coronavirus ('COVID-19') outbreak which has had a material impact on oil demand. The parties failed to reach agreement, and Saudi Aramco aggressively cut its official selling price in an attempt to prioritise market share. As a result, on 9 March 2020, Brent oil prices fell by around 20%. This was compounded by a perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of COVID-19. Whilst the OPEC+ countries together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the ongoing impact of COVID-19 is hampering a recovery of the oil price. These events continue to have an impact on oil price volatility.

The existence of COVID-19 was confirmed in early 2020 and has caused disruption to businesses and economic activity. Governments in affected countries have imposed travel bans, quarantines and other emergency public safety measures. These measures, though temporary in nature, have continued in response to developments in the virus outbreak.

On 23 December 2019, the Company signed a committed facility agreement with its parent undertaking Marubeni North Sea Limited, amounting to $454,600,000, expiring on 27 December 2022.

On 19 February 2020, the Company signed a committed facility agreement with its parent undertaking Marubeni North Sea Limited, amounting to $25,000,000, expiring on 28 February 2021.

The Company's key financial and other performance indicators during the year were as follows:

	2020	*2019*	*Change*
	$'000	*$'000*	*%*
Turnover	186,815	262,198	-29%
Operating (loss)/profit	(316,957)	75,518	-520%
Loss for the year	(442,674)	(10,774)	-4009%

Turnover was lower due to lower oil prices and lower production in the year.
Operating loss was due to lower turnover and increased cost of sales due to impairment.

Strategic report (continued)

Principal risks and uncertainties

The United Kingdom North Sea is the core area for operations.

The Company is exposed to fluctuations in commodity prices. The group uses derivative financial instruments to reduce its exposures to changes in commodity prices. The Company hedges price exposure on a proportion of its underlying oil production.
Formal hedging relationships have been designated in accordance with the requirements of IAS 39 and cash flow hedge accounting is applied.

The Company's revenue is earned primarily in US Dollars which is also its functional currency. The Company is exposed to currency translation risk for costs incurred in currencies other than in US Dollars, primarily certain operating and administrative expenses denominated in UK Pounds Sterling.

Other uncertainties include decommissioning and impairment which are further explained in note 3 to the accounts.

Section 172 (1) Statement

The directors of Marubeni Oil & Gas (U.K.) Limited consider, both individually and together, that they have acted in the way they consider, in good faith, would be the most likely to promote success of the company, for the benefit of its members as a whole (having regarded the stakeholders and matters set out in s172(1) (a-f) of the Act) in the decisions taken during the year ended 31 December 2020 through the company's culture, governance framework and delegated authorities. In their decision-making process, the directors take into consideration the likely long-term consequences for the company and the impact on the relevant stakeholders including the company's ultimate controlling shareholder Marubeni Corporation.

As part of the Marubeni Group the officers and employees shall comply with laws, regulations and internal rules in accordance with the spirit grounded in the Corporations Company Creed of "Fairness, Innovation and Harmony," and to give corporate social responsibility considerations high priority as they participate in corporate activities. We take a diligent approach to corporate social responsibility activities, aiming for sound management that co-exists in harmony with both society and the environment. Our goals are to ensure that the Marubeni Group is recognised by society as a good corporate citizen, and to realise sustainable growth. The Marubeni Management Philosophy - Fairness, Innovation and Harmony in practice means Fairness: Act with fairness and integrity at all times, Innovation: Pursue creativity with enterprise and initiative Harmony; Give and earn respect of other through cooperation.

Marubeni Corporate principles
Marubeni, as a business enterprise, will actively pursue its business interest through the exercise of fair and lawful competition. As a company Marubeni will also continue to play its part in the growth of the global economy, while always striving to enrich the society within which it operates. In order to achieve these goals, we follow six basic principles of business.

- **Conduct Fair and Open Business Activities**

Comply with laws and promote fair transactions and take a firm stand against antisocial activities and forces.

- **Develop a Globally Connected Company**

Respect the culture of all countries and regions and contribute to the prosperity of local economies through business activities.

Strategic report (continued)

· **Create New Value Through Business Vision**
In addition to responding to changes in markets and industries, create changes ourselves and offer new products and services to markets and customers. Always take on new challenges without being constrained by existing practices of frameworks.

· **Respect and Encourage Individuality and Originality**
Foster a free and vibrant corporate culture that respects the individuality of each person and allows them to fully demonstrate their originality. Act proactively, under self-management, to achieve goals.

· **Promote Good Corporate Governance**
Proactively disclose information to stakeholders and society.

· **Safeguard Ecological and Cultural Diversity**
Recognize the responsibility as a corporate citizen in international society and engage positively in social contribution activities. Pay attention to environmental problems to pass on a sound global environment to the future generations.

The Marubeni Group conducts business with the support of various stakeholders throughout the world. The Corporation recognizes the importance of diligently listening to the opinions of stakeholders, and working together to move forward, based on an understanding of stakeholder interests and concerns, as well as the impact of the Corporation's activities on society and the environment. The key stakeholders are:

· **Customers and business partners**
Marubeni Group aims to become a company that can be trusted and relied upon by its customers and business partners, and shall endeavour to offer products and services with high satisfaction, promote fair transactions and enhance service functions. The Corporation will develop and offer socially useful products and services, reflecting the requirements of its customers and business partners, by giving full consideration to safety and striving at all times to improve their satisfaction and win their trust through sincere measures.

· **Shareholders and Investors**
Marubeni Group shall work to ensure management transparency, enhance disclosure systems and strengthen group governance. Marubeni Group is dedicated to meeting shareholders' expectations. The Corporation strives thus to enhance our corporate value by responding to changes in the business environment and maintaining stable profitability. In addition, Marubeni Group works to boost corporate value from social and environmental perspectives, and also disclose pertinent information in a fair and timely manner.

· **Local Community**
Marubeni Group aims to become a valued member of the local communities where it does business, and to contribute to the creation of robust local districts through improvement of living standards, creation of job opportunities for the local community, including youths, and offering employment with diversity and inclusion, being aware of gender and disabilities. Overseas, Marubeni Group respects local laws, cultures and customs, and strives to operate its businesses in a way that contributes to local development. Furthermore, the Corporation is firmly opposed to antisocial forces and groups that threaten the order and safety of society.

· **Employees**
Marubeni Group shall respect the individual values and life goals of each and every employee and strive to improve the work environment and offer appropriate treatments. The Corporation also works hard to eliminate all forms of discrimination and foster an atmosphere that is pleasant for all.

Marubeni's greatest value comes from the brand equity, therefore we recognise the importance of a positive reputation all the directors decisions taken by the company's directors strive to maintain it, to ensure business continuity by attracting the best people and maintaining customer loyalty and working in partnership with our suppliers to create long-term trading relationships.

By order of the board

T Morita
Secretary
12 March 2021

Directors' report

Registered No. 3947050

The directors present their report and financial statements for the year ended 31 December 2020.

Directors of the Company

The current directors are listed on page 1.

There are no directors' interests requiring disclosure under the Companies Act 2006.

The ultimate parent undertaking has granted an indemnity to all directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Results and dividends

The loss for the year, after taxation, is ($442,778,302) (2019: $10,773,618). Dividends of $nil were paid during the year (2019: $211,000,000).

Future Developments

There is uncertainty in relation to the extent and period over which COVID-19 developments will continue, but they could have an impact on the Company's financial position, future cashflows and results of operations.

In addition, the significant estimates and judgements that will be made in preparing future financial statements may also be impacted if the current macro-economic uncertainty continues and estimates of long-term commodity prices decrease.

Going concern

After making enquires, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements. In reaching the conclusion that the going concern basis is appropriate, the directors have considered future cash flow forecasts to evaluate the impact of plausible downside scenarios. These include scenarios that reflect current market conditions, and updated short term commodity price forecasts. The directors have considered liquidity and the trading environment. The Company has a committed facility agreement with its parent undertaking Marubeni North Sea Limited, amounting to $454.6 million, expiring on 27 December 2022. Under all plausible scenarios, the directors concluded that the Company retains sufficient liquidity and that the going concern basis remains appropriate.

Directors' report (continued)

Financial Instruments

The Company finances its activities with a combination of loans and cash. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities.
The Company also enters into derivative transactions, principally oil price swaps. The purpose is to manage the commodity price risks arising from the Company's operations.

- Use of derivatives

The Company uses oil price swaps in order to provide greater certainty over future cash flows and minimise exposure to commodity price changes. Hedge accounting is used when certain criteria are met as explained in the accounting policies set out in note 2 to the accounts.

Political contributions

The Company made no political contributions during the year.

Disclosure of information to auditors

So far as each person who was a director at the date of approving the report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and therefore Ernst & Young LLP will continue in office as auditor of the Company.

By order of the Board

T Morita
Secretary
12 March 2021

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Marubeni Oil & Gas (U.K.) Limited

Opinion

We have audited the financial statements of Marubeni Oil & Gas (U.K.) Limited for the year ended 31 December 2020 which comprise the Statement of comprehensive income, the Statement of changes in equity and the Balance Sheet and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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. We are independent of the 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.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period ending March 2022, being a period of at least a year from the date of signing this audit opinion.

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

Independent auditor's report

to the members of Marubeni Oil & Gas (U.K.) Limited (continued)

Other information

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

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

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

We have nothing to report in this regard.

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 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 or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- 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 7, 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 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 company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report

to the members of Marubeni Oil & Gas (U.K.) Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101), Companies Act 2006, Bribery Act 2010, Companies (Miscellaneous Reporting) Regulation 2018, Petroleum Act 1998, Oil & Gas Authority Regulations and the relevant direct an indirect tax compliance regulation in the United Kingdom.
- We understood how the Company is complying with those frameworks by making enquiries of management to understand the policies and procedures in place as well as reviewing corroborative evidence as necessary.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by enquiring with management to understand the policies and procedures in place to detect fraud and action accordingly and by considering the risk of management override. We assessed that revenue was an area of the audit which might be more susceptible to fraud. We obtained an understanding of the controls over the process for the recognition of revenue and tested in particular the existence of the revenue recorded in the financial statements and any manual adjustments to the revenue. We incorporated data analytics into our testing of manual journals. We tested specific transactions backing to source documentation or independent confirmation as appropriate.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved reviewing minutes from the Board of Directors, enquiring with key management personnel and testing journals identified by specific risk criteria.

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.

Independent auditor's report

to the members of Marubeni Oil & Gas (U.K.) Limited (continued)

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

William Binns (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: 16 March 2021

Statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 $	2019 $
Turnover	4	186,814,575	262,197,767
Cost of sales		(500,369,238)	(188,138,323)
Gross (Loss)/Profit		(313,554,663)	74,059,444
Administrative expenses		(4,456,589)	(5,932,810)
Other operating income		1,054,530	7,391,442
Operating (Loss)/Profit	5	(316,956,722)	75,518,076
Interest receivable and similar income	7	233,297	743,569
Interest payable and similar charges	8	(1,489,278)	(3,120,094)
(Loss)/Profit on ordinary activities before taxation		(318,212,703)	73,141,551
Taxation	9	(124,461,354)	(83,915,169)
Loss for the year		(442,674,057)	(10,773,618)
Other comprehensive income			
Items that can be reclassified to profit or loss:			
Cash flow hedges: loss arising during the year		(877,335)	(12,802,615)
		(877,335)	(12,802,615)
Tax on items relating to components of other comprehensive loss		350,934	5,121,046
Other comprehensive loss for the year, net of tax		(526,401)	(7,681,569)
Total comprehensive loss for the year		(443,200,458)	(18,455,187)

The Company's results are derived from continuing activities.

Statement of changes in equity

for the year ended 31 December 2020

	Called up share capital $	Cash flow hedge reserve $	Retained earnings $	Total Equity $
At 1 January 2019	537,000,002	7,558,051	432,909,455	977,467,508
Loss for the year	-	-	(10,773,618)	(10,773,618)
Dividend Paid	-	-	(211,000,000)	(211,000,000)
Other comprehensive loss	-	(7,681,569)	-	(7,681,569)
Total comprehensive income for the year	0	(7,681,569)	(221,773,618)	(229,455,187)
At 31 December 2019	537,000,002	(123,518)	211,135,837	748,012,321
At 1 January 2020	537,000,002	(123,518)	211,135,837	748,012,321
Loss for the year	-	-	(442,674,057)	(442,674,057)
Dividend Paid	-	-	-	0
Other comprehensive loss	-	(526,401)	-	(526,401)
Total comprehensive loss for the year	0	(526,401)	(442,674,057)	(443,200,458)
At 31 December 2020	537,000,002	(649,919)	(231,538,220)	304,811,863

Balance sheet
as at 31 December 2020

	Notes	2020 $	2019 $
Fixed assets			
Tangible fixed assets	10	435,959,466	809,307,215
Deferred tax	9	36,253,426	160,537,525
		472,212,892	969,844,740
Current assets			
Debtors	11	118,557,875	36,078,440
Cash at bank		9,561,221	11,914,936
Creditors : amounts falling due within one year	12	13,216,995	24,117,573
Net current assets		114,902,101	23,875,803
Total assets less current liabilities		587,114,993	993,720,543
Creditors : amounts falling due after more than one year		-	-
Provisions for liabilities and charges	14	282,303,130	245,708,222
Net assets		304,811,863	748,012,321
Capital and reserves			
Called up share capital	15	537,000,002	537,000,002
Cash flow hedge reserve		(649,919)	(123,518)
Retained (deficit)/earnings		(231,538,219)	211,135,837
Total equity		304,811,864	748,012,321

Approved by the Board of Directors on and signed on their behalf by:

T Suzuki
Director
12 March 2021

Notes to the financial statements
as at 31 December 2020

1 Authorisation of financial statements and compliance with FRS 101

The financial statements of Marubeni Oil & Gas (U.K.) Limited (the "Company") for the year ended 31 December 2020 were authorised for issue by the board of directors on 12 March 2021 and the balance sheet was signed on the board's behalf by I Suzuki. Marubeni Oil & Gas (U.K.) Limited is a private limited company (limited by shares) incorporated in England.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in US Dollars.

The principal accounting policies adopted by the Company are set out in Note 2.

2 Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, in US Dollars, and in accordance with applicable UK accounting standards.

The directors consider it appropriate to prepare the accounts on a going concern basis, since the Company has adequate resources to continue in operational existence for the foreseeable future.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirement in paragraph 38 of IAS 1 '*Presentation of Financial Statements*' to present comparative information in respect of:
   (i) paragraph 79(a) (iv) of IAS 1 *Presentation of Financial Statements;*
   (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment;*
   (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
b) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements;*
c) the requirements of IAS 7 *Statement of Cash Flows;*
d) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
e) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
f) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
g) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets.*
h) the requirements of IFRS 7 Financial Instruments: Disclosures.

Going concern

After making enquires, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements. In reaching the conclusion that the going concern basis is appropriate, the directors have considered future cash flow forecasts to evaluate the impact of plausible downside scenarios. These include scenarios that reflect current market conditions, and updated short term commodity price forecasts. The directors have considered liquidity and the trading environment. The Company has a committed facility agreement with its parent undertaking Marubeni North Sea Limited, amounting to $454.6 million, expiring on 27 December 2022. Under all plausible scenarios, the directors concluded that the Company retains sufficient liquidity and that the going concern basis remains appropriate.

Notes to the financial statements

as at 31 December 2020

2 Accounting policies (continued)

Oil and natural gas exploration, evaluation and development expenditure

Oil and natural gas exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.
Pre-licence costs are expensed in the period in which they are incurred.

Exploration expenditure comprises all costs associated with the acquisition of new acreage, the drilling of exploratory wells and other costs incurred in evaluating the commercial viability of hydrocarbon deposits. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors.

Appraisal expenditure comprises costs incurred in the survey, exploration and appraisal of licence areas not yet under development or in production.

Once the legal right to explore has been acquired, exploration and appraisal expenditure is classified as an intangible fixed asset until a decision is reached concerning the commercial viability of the field to which it relates. Expenditure is then either written off to the profit and loss account, if no potentially commercial hydrocarbons are discovered, or transferred to oil and gas properties, if extractable hydrocarbons are found and, subject to further appraisal activity, it is probable that they can be commercially developed. The costs continue to be carried as intangible assets while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

General seismic and other expenditure not connected with a specific exploration licence is written off to the profit and loss account immediately. Exploration expenditure written off is classified within cost of sales.

Tangible fixed assets

Oil and gas properties and other tangible fixed assets are stated at cost, less accumulated depreciation/depletion and accumulated impairment losses.

Expenditure on oil and gas properties /production assets represents the Company's share of total expenditure on the exploration, appraisal and development of oil and gas fields which are currently in commercial production. This expenditure includes costs of capital assets, financing costs (where identifiable with specific developments), the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), plus for depreciation calculation purposes only, any anticipated future development expenditure and is stated at cost.
Oil and gas properties are depreciated/amortised by field on a unit-of-production basis, in the proportion of the actual production for the period to the total estimated remaining commercial reserves (proven and probable) for the field on an entitlement basis. The remaining commercial reserves in the reserves estimated at the end of the period plus the production during the period.

Other tangible fixed assets are generally depreciated on a straight-line basis over their estimated useful lives.

Notes to the financial statements
as at 31 December 2020

2 Accounting policies (continued)

Impairment of non-financial assets

The Company assesses impairment whenever there is a change in events or circumstances which give an indication that an asset's or cash generating unit's ('CGU's') carrying value may not be recoverable. Management has assessed the CGU as being a field or inter-related group of fields, which is the lowest level for which cash inflows independent of those of other assets. If any indication exists the Company estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value in use. To the extent that the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

The value in use is determined from estimated future net cash flows discounted to their present values using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset/CGU.

For all non-financial assets (other than goodwill) an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairments losses may no longer exist or may have decreased, in which case the impairment loss may be reversed.

Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.
The Company's turnover is attributable to one continuing activity, the production of oil and natural gas.

Revenues from the production of oil and natural gas relating to properties in which the Company has an interest with other producers are recognised when performance obligations have been satisfied and for the Company this is when control passes to the customer. Revenues from oil are recognised based on actual liftings. Revenues from the production of natural gas relating to properties in which the Company has an interest with other producers are recognised when title passes to the customer on the basis of the Company's working interests in those properties. Transaction price is based on the amount specified in the contract. Payment of the transaction price is due in accordance with the contract terms.

Under/overlift balances represents the difference between production sold and the Company's share of production in properties in which the Company has an interest with other producers. Adjustments in respect of under/overlift are recorded against cost of sales and working capital balances at market value.

Notes to the financial statements
as at 31 December 2020

2 Accounting policies (continued)
Income taxes

Current tax (for both corporate tax and petroleum revenue tax) is based on taxable profit for the period. Taxable profit differs from accounting profit because it excludes items of income or expenditure which are taxable or deductible in other periods and it excludes items of income or expenditure which are never taxable or deductible. The Company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.
Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.
Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.
Deferred tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss.
Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the financial statements
as at 31 December 2020

2 Accounting policies (continued)

Foreign currencies

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

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the average mnothly exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

All exchange gains and losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit or loss for the period.

Trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are assessed based on credit ratings.

Provisions

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Decommissioning

The Company makes full provision for the future costs of decommissioning oil and gas production facilities on a discounted basis on the acquisition or installation of those facilities. The amount recognised is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements.

A corresponding tangible fixed asset of an amount equivalent to the provision is also created and recognised with the oil and gas properties. This is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas assets.

Notes to the financial statements
as at 31 December 2020

2 Accounting policies (continued)
Financial Instruments

1) Financial Assets

Cash at bank

Cash at bank in the balance sheet comprises cash at banks including any short term deposits..

2) Derivative financial instruments

The Company uses derivative financial instruments ("derivatives") to reduce certain of its exposures to changes in commodity prices. The Company considers that its derivate instruments are used solely to hedge price exposures on its underlying oil production. More specifically, for commodity price contracts, the derivative instrument must be in respect of expected production volumes for the relevant period and the contract must reduce the Company's exposure to the risk of commodity price movements.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognized in profit or loss for the year.

Cash flow hedges

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. The Company's oil price swaps are classified as cash flow hedges.

Notes to the financial statements
as at 31 December 2020

2 Accounting policies (continued)
Financial Instruments (continued)

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged item. Such hedges are expected at inception to be highly effective in achieving offsetting changes in fair value or cash flows.

For hedges meeting the criteria for hedge accounting as cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised within other comprehensive income, while the ineffective portion is recognised in the profit and loss account as other operating expenses. Amounts taken to other comprehensive income are transferred to the profit and loss account when the hedged transaction affects profit or loss. The gain or loss relating to the effective portion of oil swaps hedging commodity prices is recognised in the profit and loss account within interest payable and similar charges

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Fair values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Notes to the financial statements
as at 31 December 2020

2 Accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

3 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 9.

Estimates and assumptions

The key assumptions concerning the future and other key sources of information uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year, are described below.

Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

Notes to the financial statements
as at 31 December 2020

3 Judgements and key sources of estimation uncertainty (continued)

Units of production (UOP) depreciation of oil and gas assets

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. The life of èach asset, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. The Company makes full provision for the future costs of decommissioning oil and gas production facilities on a discounted basis on the acquisition or installation of those facilities. The provision has been estimated using cost estimates based on existing technology discounted to their present value using a discount rate of 0.5% (2019 - 1.2%). These costs are expected to be incurred over the next 21 years. The provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines.There is uncertainty regarding both the amount and timing of incurring these costs. The Company assesses its decommissioning provisions at each reporting date.

Recovery of deferred tax assets

Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations and judgements about the application of existing tax laws in the jurisdiction where the Company operates. To the extent that future cash flows and taxable income differ significantly from estimates,

Estimation of value in use

The value in use is determined from estimated future net cash flows discounted to their present values using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset/CGU.

The most significant assumptions within the value-in-use model include: future oil prices, and the forecast production profile of the MonArb development. Management has benchmarked their assumptions against external publically available data, and has received an independent reserves report supporting the forecast production profile.

The valuation remains highly sensitive to variations in these assumptions.

Notes to the financial statements
as at 31 December 2020

4 Turnover
Turnover recognised in the profit and loss account is analysed as follows:

	2020	*2019*
	$	*$*
Sales of oil and natural gas	186,814,575	262,197,767
Turnover from continuing operations	186,814,575	262,197,767

All turnover was generated from continuing operations in the United Kingdom.
No revenue was derived from exchanges of goods or services (2019: $nil).
The adoption of IFRS 15 from 1 January 2018 led to a change in sales recognition, which is now determined upon oil lifted.

5 Operating profit
This is stated after charging:

	2020	*2019*
	$	*$*
Depreciation of oil and gas properties	90,618,727	142,262,702
Impairment of oil and gas properties	330,861,304	-
Auditor's Remuneration – audit of financial statements	176,604	167,890
Net foreign currency exchange loss	22,037	508,852
Loss on disposal of oil and gas properties	-	633,563

6 Staff costs and directors' remuneration
There were no employees during the period (2019: nil).

No remuneration was paid to the directors in respect of their services to the Company (2019: $nil).

The director G Nienow is a senior executive of, and is remunerated by Marubeni North Sea Ltd and received no remuneration for services to this Company. The director I Suzuki is a senior executive of, and is remunerated by Marubeni Corporation Tokyo and received no remuneration for services to this Company. The director T Morita is a senior executive of, and is remunerated by Marubeni North Sea Ltd and Marubeni Europe plc and received no remuneration for services to this Company.

7 Interest receivable and similar income

	2020	*2019*
	$	*$*
Interest receivable on taxation and similar income	233,297	743,569
Total interest receivable and similar income	233,297	743,569

Notes to the financial statements
as at 31 December 2020

8 Interest payable and similar charges

	2020	2019
	$	$
Bank loans	3,236	8,816
Related parties loan interest and similar charges	10,318	29,090
Interest on other financial liabilities	13,945	43,104
Total interest expense	27,499	81,010
Unwinding of discount on decommissioning provisions	1,461,779	3,039,084
Total interest payable and similar costs	1,489,278	3,120,094

9 Tax

(a) Tax on loss on ordinary activities
The total tax credit is made up as follows:

	2020	2019
	$	$
Current tax:		
Group relief receipt	-	-
Group relief - prior year adjustment	(173,678)	(3,188,074)
Petroleum revenue tax (PRT)	-	-
Adjustment in respect of prior periods	-	(58,344)
Total current income tax credit	(173,678)	(3,246,418)
Origination and reversal of temporary differences	124,635,032	87,161,587
Deferred Petroleum revenue tax (PRT)	-	-
Change of tax rate	-	-
Total deferred tax	124,635,032	87,161,587
Total tax charge in profit or loss	124,461,354	83,915,169

Notes to the financial statements
as at 31 December 2020

9 Tax (continued)

(b) Tax relating to items charged or credited to other comprehensive income

	2020 $	2019 $
Deferred tax:		
Tax income on revaluation of cash flow hedges	350,934	5,121,046
Total deferred tax	350,934	5,121,046
Tax credit in other comprehensive income	350,934	5,121,046

(c) Reconciliation of the total tax credit

The tax assessed on the profit/(loss) on ordinary activities for the year is lower than effective combined corporation tax rate of 40% (2019: 40%) comprising the ring fence corporation tax in the UK of 30% and the supplementary corporation tax rate of 10% (2019: 10%). The differences are reconciled below:

	2020 $	2019 $
Profit on ordinary activities before tax	(318,212,703)	73,141,551
Profit on ordinary activities multiplied by the ring fence corporation tax at the rate of 30% and the supplementary charge at the rate of 10% (2019: 30% + 10%)	(127,285,081)	29,256,620
Expenses not deductible for tax purposes	358,789	78,099
Deferred tax losses unrecoverable	251,558,574	57,565,405
Financing costs not deductible for supplementary charge	2,750	8,038
Change of tax rate	-	-
Disposal of Asset	-	253,425
Prior year adjustment	-	(58,344)
Group relief in respect of prior year	(173,678)	(3,188,074)
Petroleum revenue tax (PRT)	-	-
Total tax charge reported in profit or loss	124,461,354	83,915,169

(d) Factors that may affect future tax charges

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances at about the same level as in the current year.

The Company adopts an integrally linked approach to the recognition of deferred tax in respect of abandonment. The Company recognises a deferred tax asset on its decommissioning provision (2020: $43.8m) principally based on the existence of a deferred tax liability on its abandonment asset (2020: $41.1m).

Notes to the financial statements
as at 31 December 2020

9 Tax (continued)

(d) Factors that may affect future tax charges

During 2019, the IFRS Interpretations Committee issued Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, which proposed limited scope amendments to IAS 12 to clarify how companies account for deferred tax on leases and decommissioning obligations. The exact changes to IAS 12 are yet to be published (as at the date the financial statements have been finalised) and once introduced are expected to be effective for the periods beginning on or after 1 January 2023.
Were the proposed amendments to be implemented automatic offsetting of deferred tax assets and deferred tax liabilities in respect of decommissioning obligations would not be permitted.
On the basis of the current draft proposals the introduction of these amendments to IAS 12 would lead to a reduction in the net DTA recognised by the company.

(e) Deferred Tax
The deferred tax included in the balance sheet is as follows:

	2020	*2019*
	$	*$*
Deferred tax asset		
Decommissioning provision	(43,826,060)	(45,337,478)
Petroleum revenue tax (PRT)	-	-
Derivative financial instruments	(433,280)	(82,346)
Tax losses	(107,655,216)	(360,225,333)
	(151,914,556)	(405,645,157)
Deferred tax liability		
Accelerated capital allowances	115,661,127	244,391,485
Derivative financial instruments	-	-
Other temporary differences	-	716,146
	115,661,127	245,107,631
Disclosed on the balance sheet		
Deferred tax asset	(36,253,426)	(160,537,525)
Deferred tax liability	-	-
	(36,253,426)	(160,537,525)

The deferred tax asset at 31 December 2020 is recognised to the extent that taxable profits are expected to arise in the future against which the ring fence losses can be utilised. The forecast taxable profits principally relate to the MonArb area fields.

The company did not recognise a potential deferred tax asset on temporary differences of $2,734,948,895 (2019: $1,034,481,917) at the year end, on the basis that the availability of sufficient tax profits arising in the future against which the temporary difference could reverse is not considered probable.
The total unrecognised deferred tax asset of $594,608,139 (2019: $246,442,431) relates to Corporation Tax losses of $1,346,459,271 (2019: $516,424,406) and Supplementary Charge losses of $1,215,751,637 (2019: $385,692,985) carried forward and the abandonment provision of $172,737,986 (2019: $132,364,526).

Notes to the financial statements
as at 31 December 2020

10 Tangible fixed assets

	Oil and gas properties $
Cost:	
At 1 January 2020	2,411,014,854
Additions	3,059,674
Change in decommissioning provision	45,072,608
At 31 December 2020	2,459,147,136
Depreciation and impairment:	
At 1 January 2020	1,601,707,639
Charge for the year	90,618,727
Impairment	330,861,304
At 31 December 2020	2,023,187,670
Net book value:	
At 31 December 2020	435,959,466
At 1 January 2020	809,307,215

In determining the recoverable amount of the asset/CGU, the Company uses a pre-tax discount rate of 7% based on a country-based weighted average cost of capital. Oil prices are based on an internal view of management expectations based on market consensus prices. The impairment model suggests a break-even price at $53/bbl. The Company has recognized $330,861,304 of impairment. Sensitivity analysis for the asset/CGU indicates a 5% reduction in oil price assumptions would result in $42.5m of further impairment and a 5% rise in FX rate (GBP/USD) assumption would result in $35.0m of further impairment.
Considering discount rates, a 0.5% decrease in the rate would lead to a reduction in recoverable amount of $1.1 million whereas a 0.5% increase in the rate would lead to an increase in recoverable amount of $0.7m.

11 Debtors

	2020 $	2019 $
Trade debtors	12,989,599	2,996,570
Underlift	4,627,303	29,627,238
Prepayments and accrued income	2,782,297	686,890
Amounts due from fellow subsidiary	88,000,000	2,767,742
Other debtors	10,158,676	-
	118,557,875	36,078,440

Notes to the financial statements
as at 31 December 2020

12 Creditors: amounts falling due within one year

	2020	2019
	$	$
Trade Creditors	3,952,564	11,919,144
Overlift	1,295,203	826,449
Amounts due to parent company	1,337,084	1,671,004
Derivative financial instruments (note 13)	1,083,200	205,865
Accruals	5,548,944	9,495,111
	13,216,995	24,117,573

The amounts due to parent company include loans of $Nil from the parent undertaking Marubeni North Sea Limited.
On 19 February 2020, the Company signed a committed facility agreement with its parent undertaking Marubeni North Sea Limited, amounting to $25,000,000, expiring on 28 February 2021.

13 Derivative financial instruments

	2020	2019
	$	$
Financial assets		
Cash flow hedges - oil price swap:		
Current portion	-	-
Financial liabilities		
Cash flow hedges - oil price swap:		
Current portion	1,083,200	205,865

Notes to the financial statements
as at 31 December 2020

13 Derivative financial instruments (continued)

Oil Forward Contracts	Financial Instrument Classification	Term	Fair Value 31-Dec-20
Brent Oil Swaps	Cash flow	Expiry	(1,083,200)
Oil Forward Contracts	hedges	Mar 2021	

Oil Forward Contracts	Financial Instrument Classification	Term	Fair Value 31-Dec-19
Brent Oil Swaps	Cash flow	Expiry	(205,865)
Oil Forward Contracts	hedges	Jan 2020	

The resulting $(1,083,200) (2019: $205,865) fair value of these contracts has been recognised in the statement of financial position as derivative liabilities. These amounts are neither past due or impaired. The maximum credit exposure of these derivative liabilities (2019: liabilities) is the carrying value. The Company mitigates this risk by entering into transactions with long-standing, reputable counterparties and partners.

Fair value hierarchy

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The entity enters into purchased derivative financial instruments (commodity contracts) with various counterparties, principally financial institutions with investment-grade credit ratings. All derivatives are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models that use present value calculations.

The entity uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:
Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data
All financial instruments measured at fair value use Level 2 valuation techniques in both years.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
• In the principal market for the asset or liability
• In the absence of a principal market, in the most advantageous market for the asset or liability
The principal or the most advantageous market must be accessible by the entity.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The entity uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to the financial statements

as at 31 December 2020

13 Derivative financial instruments (continued)

Risk exposures and responses

The entity manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the delivery of the entity's financial targets while protecting future financial security. The main risks that could adversely affect the entity's financial assets, liabilities or future cash flows are market risks comprising: commodity price risk, and credit risk. Management reviews and agrees policies for managing each of these risks that are summarised below.

The entity's senior management oversees the management of financial risks.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The entity trades only with recognised creditworthy third parties. It is the entity's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which include an assessment of credit rating, short-term liquidity and financial position. The entity obtains sufficient collateral (where appropriate) from customers as a means of mitigating the risk of financial loss from defaults. In addition, receivable balances are monitored on an ongoing basis, with the result that the entity's exposure to bad debts is not significant.

Commodity price risk

The entity is exposed to the risk of fluctuations in prevailing market commodity prices on the oil it produces. The entity's policy is to manage these risks through the use of contract-based prices with customers and derivative commodity contracts and to keep between 20% and 40% of its production at fixed prices.

Notes to the financial statements

as at 31 December 2020

13 Derivative financial instruments (continued)

Commodity price sensitivity

The table below summarises the impact on profit before tax for changes in commodity prices on the fair value of derivative financial instruments. The impact is on equity only, with no impact on profit before income tax as these derivative financial instruments have been designated as hedges and are classified as held-for-trading and are therefore fair valued through profit or loss.

The analysis is based on the assumption that the oil prices move 10% with all other variables held constant.

	Effect on profit before tax for the year ended 31-Dec-20 increase / (decrease)	Effect on profit before tax for the year ended 31-Dec-19 increase / (decrease)
Increase in oil prices by 10%	534,695	794,504
Decrease in oil prices by 10%	(534,695)	(794,504)

14 Provisions for liabilities and charges

	Decommissioning *$*
At 1 January 2020	
Non-current	245,708,222
Arising during the year	
Utilised	(9,939,479)
Unwinding of discount	1,461,779
Revision of estimate	45,072,608
At 31 December 2020	282,303,130
Analysed as:	
Non-current	282,303,130

Notes to the financial statements
as at 31 December 2020

15 Share capital

Authorised	*2020* *No.*	*2020* *$*	*2019* *No.*	*2019* *$*
Ordinary shares of £1 each	100,000,000	151,390,000	100,000,000	151,390,000
Redeemable ordinary shares of $1 each	1,419,000,000	1,419,000,000	1,419,000,000	1,419,000,000
Redeemable preference shares of $1 each	100,000,000	100,000,000	100,000,000	100,000,000
		1,670,390,000		1,670,390,000

Allotted, called-up and fully paid	*2020* *No.*	*2020* *$*	*2019* *No.*	*2019* *$*
Ordinary shares of £1 each	1	2	1	2
Redeemable ordinary shares of $1 each	537,000,000	537,000,000	537,000,000	537,000,000
		537,000,002		537,000,002

The redeemable ordinary shares have the following key terms;

- redemption of the redeemable ordinary shares is at the option of the shareholder
- no premium is payable upon redemption
- there is no fixed redemption date.

On 21 December 2018 the Company cancelled 1,000,000,000 Redeemable Ordinary Shares of $1 each. On 27 December 2018 the Company's parent Marubeni North Sea subscribed for 118,000,000 Redeemable Ordinary Shares of $1 each.

16 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to $14,529,000 (2019 : $19,345,000).

17 Related Party Transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries that are part of the Marubeni Corporation group.

There were no other related party transactions in the year.

18 Ultimate parent undertaking

The immediate parent undertaking of the Company is Marubeni North Sea Limited.

The ultimate parent undertaking of the Company for which financial statements are drawn up, and of which the company is a member, is Marubeni Corporation, a company registered in Japan. Copies of Marubeni Corporation's financial statements can be obtained from the Marubeni Oil & Gas (U.K.) Limited registered office.