2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Estimation uncertainty (Continued)

- *Onerous contract provisions:* the Group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time. A provision for onerous contracts of US$ 4,026 thousand was outstanding at 31 December 2016 (2015: US$ 307 thousand).

- *Impairment of goodwill*: the Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was US$ 32,153 thousand (2015: US$ 32,153 thousand) (note 11).

- *Deferred tax assets*: the Group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgments and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits. The carrying amount of deferred tax assets at 31 December 2016 was US$ 17,720 thousand (2015: US$ 35,803 thousand) (note 7c);

- *Income tax:* the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned;

- *Recoverable value of property, plant and equipment, intangible oil and gas assets and other financial assets:* the Group determines at each reporting date whether there is any evidence of indicators of impairment in the carrying value of its property, plant and equipment, intangible oil and gas assets, other intangible assets, available-for-sale investment and other financial assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable value of its assets which is initially based on its value in use. When necessary, fair value less costs of disposal is estimated, for example by reference to quoted market values, similar arm's length transactions involving these assets or risk adjusted discounted cash flow models. For the following specific assets, certain assumptions and estimates have been made in determining recoverable amounts. Should any changes occur in these assumptions, impairment may be required in future periods:

    - In relation to impairment testing performed for the Mexican PEC assets (excluding Panuco) which have a combined carrying value of US$ 676,000 thousand at 31 December 2016 (2015: US$ 642,000 thousand), the recoverable amount is dependent upon the outcome of ongoing contractual negotiations in respect of the planned migration to PSC type arrangements. Key assumptions include the expected working interest in the PSC and financial and fiscal terms achieved upon migration. For the asset held for sale, an estimate was undertaken in respect of the future contingent consideration amount receivable when determining the recoverable amount for this asset, with key assumptions relating to the terms under which the asset will be migrated to PSC type arrangement.

      During the year, the Group has recorded a pre-tax impairment charge of US$ nil (2015: US$ 1,207 thousand) in relation to OML 119 field license cost (note 9).

    - The determination of the recoverable amount of the JSD6000 vessel under construction involved assumptions in respect of the remaining capital cost of the project, the ability to secure financial and/or operating partners, forecast long term market conditions, achievable market share and the timing of re-commencement of construction.