Statement of Directors' Responsibilities for the Group Financial Statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare Group financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements under International Financial Reporting Standards ('IFRS') as adopted by the European Union.

Under Company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the Group financial statements, International Accounting Standard 1 ('IAS') requires that the Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Strategic Report, Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

Fair, balanced and understandable

In accordance with the principles of the UK Corporate Governance Code, the Directors are responsible for establishing arrangements to evaluate whether the information presented in the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, and making a statement to that effect. This statement is set out on page 78 of the Annual Report.

Independent Auditor's Report to the Members of EnQuest PLC

For the year ended 31 December 2020

Report on the audit of the Financial Statements

1. Opinion

In our opinion:
- the Financial Statements of EnQuest PLC (the 'Parent Company') and its subsidiaries (together the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:
- the Group Income Statement;
- the Group and Company Balance Sheets;
- the Group and Company Statements of Changes in Equity;
- the Group Cash Flow Statement;
- the related notes 1 to 30 to the Group Financial Statements; and
- the related notes 1 to 11 to the Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and issued by the IASB. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the year are disclosed in note 5(g) to the Financial Statements. We confirm that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

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

3. Material uncertainty related to going concern

We draw attention to note 2 in the Financial Statements, which indicates that the Revolving Credit Facility expires in October 2021 and the new facility has not been signed at the time of publication of the Group's results. As stated in note 2, these events or conditions, along with the other matters set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:
- we obtained an understanding of the relevant controls relating to the going concern assumption;
- we have tested the clerical accuracy of the model used to prepare the going concern forecasts;
- we have assessed the historical accuracy of forecasts prepared by management;
- we have verified the consistency of key inputs relating to future costs, hedging and production to other financial and operational information obtained during our audit;
- we have agreed the available facilities to underlying agreements and external confirmation from debt providers and testing covenant calculation forecasts performed by management;
- we have challenged management as to the reasonableness of oil and gas pricing assumptions applied, based on benchmarking to market data;
- we have assessed and concluded on the reasonableness of management's sensitivity analysis on the forecast, including the downside scenarios such as lower oil prices and reduced production, and considered the mitigating actions highlighted by management in the event that they were required; and
- we have challenged management as to the adequacy of disclosures made in the Annual Report and Accounts.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting; and
- the Directors' identification in the Financial Statements of the material uncertainty related to the Group's and Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see section 3 above, *Material uncertainty related to going concern*); • Impairment of oil & gas assets and goodwill and valuation of Magnus contingent consideration; and • Valuation of decommissioning liability. These key audit matters were also identified by the Group's auditor in the prior year, Ernst & Young, with the exception of the valuation of decommissioning liability which we have assessed as a key audit matter in the current year due to the highly judgemental nature of the assumptions, in particular gross cost estimates.
Materiality	The materiality that we used for the audit of the Group Financial Statements was $16.5 million which was determined on the basis of 3% of EBITDA (earnings before interest, tax, depreciation, and amortisation). Our materiality represents 2.9% of reported loss before tax.
Scoping	EnQuest PLC has two significant operating segments, being the North Sea and Malaysia. A full scope audit was performed by the Group audit team on the North Sea operations, and a full scope audit was performed by the Malaysia component team on the Malaysian operations. In the current year the North Sea and Malaysia components accounted for 100% of the Group's revenue, 100% of the Group's EBITDA and 100% of the Group's net assets. The Malaysia component contributed 7% of the Group's revenue, 4% of the Group's EBITDA and 6% of the Group's total assets.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

5.1. Impairment of oil and gas assets and goodwill and valuation of Magnus contingent consideration

Key audit matter description	*As at 31 December 2020, the net book value of oil and gas assets is $2,124 million (2019: $2,750 million) and management have recorded a pre-tax impairment charge of $422 million (2019: $638 million) against oil and gas assets, including related right of use assets, as disclosed in note 10.* *As at 31 December 2020, the net book value of goodwill is $134 million (2019: $134 million). No goodwill impairment charge has been recorded, as disclosed in note 11.* *As a result of the above, management performed an assessment for the Parent Company investment carrying value by reference to IAS 36 Impairment of Assets and IFRS 9 Financial Instruments. As at 31 December 2020, the net book value of investments in the Parent Company is $71 million (2019: $1,141 million) and management have recorded an impairment charge of $1,072 million (2019: $244 million), as disclosed in note 3 to the Parent Company accounts.* *The valuation of Magnus contingent consideration is $522 million (2019: $657 million) as at 31 December 2020, based on the fair value of the future cash flows for the Magnus asset, as disclosed in note 22. The acquisition of Magnus resulted in the recognition of contingent consideration to both the initial 25% acquisition in 2017 and the subsequent 75% acquisition in 2018. The key assumptions in the calculation of the valuation of Magnus contingent consideration model are consistent with those for assessing the oil and gas assets. This is considered to be a key audit matter because the valuation model is complex involving significant judgement in the assumptions noted below. The Group's accounting policy is detailed in note 22.* The oil and gas assets are required to be reviewed for indicators of impairment, and then tested for impairment where indicators are identified. Goodwill is required to be tested for impairment at least annually. Oil and gas assets and goodwill are subject to significant estimation uncertainty, as set out below and further disclosed in note 2. Consequently, they represent a high risk of impairment. We therefore identified a key audit matter that these oil and gas assets and goodwill are not recoverable. The impairment recorded in the year on oil and gas assets was primarily because of a change in the estimation of commodity prices. There was no impairment recognised on goodwill as the recoverable amount was higher than the book value. The impairment assessment involves management judgement in considering whether the carrying value of those assets or cash generating units are recoverable. The key assumptions and judgements underpinning the impairment reviews include: • forecast future commodity prices, including the impact of climate change on those prices; • estimates of oil and gas reserves; • forecast future production; and • determining appropriate discount rates. The Group's accounting policies are detailed in notes 2, 10 and 11, these notes also include details of the sensitivity to changes in assumptions. The Group's Audit Committee has included this key audit matter in their Audit Committee Report for the year ended 31 December 2020 on page 79.

5.1. Impairment of oil and gas assets and goodwill and valuation of Magnus contingent consideration continued

How the scope of our audit responded to the key audit matter	**Procedures on the overall impairment review and Magnus contingent consideration valuation** • we have understood management's process for identifying indicators of impairment and for performing their impairment assessment; • we obtained an understanding of the relevant controls and then evaluated the associated design and implementation of such controls relating to the asset impairment models and Magnus contingent consideration, the underlying forecasting process and the impairment and valuation reviews performed; • we evaluated and challenged the key assumptions and inputs into the impairment and contingent consideration models, which included performing sensitivity analysis, to evaluate the impact of selecting alternative assumptions. We evaluated the current year changes to the key assumptions; • we worked with our modelling specialists to evaluate the arithmetical accuracy of the impairment model. We recalculated the impairment charges and headroom and agreed these to financial records; • we challenged management's cash generating unit determination and considered whether there was any contradictory evidence present; • we evaluated the impairment and valuation judgements taken, with reference to our assessment of the key assumptions as outlined above and the outcome of the sensitivities performed; and • we evaluated and challenged management's disclosures including in relation to the sensitivity on oil and gas assets and goodwill, for oil and gas price assumptions to reduced demand scenarios, whether due to climate change or other reasons. **Procedures relating to forecast future cash flows and reserves estimates** • we assessed whether forecast cash flows were consistent with Board approved forecasts, and analysed reasonably possible downside sensitivities; • we evaluated production profiles by reference to external reserve estimates and agreed these to the cash flow forecast assumptions with involvement from our petroleum engineering experts; • we compared hydrocarbon production forecasts used in impairment tests to estimates and reports and our understanding of the life of fields; • we confirmed estimates of oil and gas reserves to third party reserve reports, assessing the skills, qualifications and independence of those third party experts, using our own internal specialists; and • we challenged and evaluated the adequacy of the opex and capex assumptions within the model. **Procedures relating to oil and gas prices** • we independently developed a reasonable range of forecasts based on external data, against which we compared the Group's future oil and gas price assumptions in order to challenge whether they are reasonable; • in developing this range we obtained a variety of reputable third party forecasts, peer information and market data; and • in challenging management's price assumptions, we considered the extent to which they and each of the forecast pricing scenarios obtained from third parties reflect the impact of lower oil and gas demand due to climate change. **Procedures relating to the discount rate** • we independently evaluated the Group's discount rates used in impairment tests and cash flow analysis with input from our valuation specialists; and • we assessed whether country risks and tax adjustments were appropriately reflected in the Group's discount rates. **Procedures relating to the impairment of Parent Company investments** • evaluating the methodology applied in reviewing the investments for impairment and assessing the recoverability of intercompany balances, with reference to the requirements of IAS 36 '*Impairment of Assets*' and IFRS 9 '*Financial Instruments*' respectively; • challenging the key assumptions within management's cash flow forecasts as described in the impairment of oil and gas assets and goodwill and Magnus contingent consideration valuation key audit matter; • testing the mechanical accuracy of the model; and • evaluating the adequacy of the Parent Company's disclosures regarding the investment impairment and intercompany recoverability in notes 3 and 4 of the Financial Statements.
Key observations	• we are satisfied that the key assumptions used to determine the recoverable amount of oil and gas assets and Magnus contingent consideration are materially appropriate, including estimates of reserves and production profiles; • the Group's future commodity price estimates are within the acceptable range of external sources; • we considered the sensitivity disclosure relating to the impact on the Group's goodwill impairment review of reasonable lower future commodity prices estimates with the conclusion that a change in assumption does not lead to impairment; • the Group's discount rate is lower than the range calculated by our internal valuation specialists, but this resulted in an immaterial difference in the impairment charge which would have increased the impairment recorded; • from the work performed, we are satisfied that the impairment recorded and the carrying value of the investments in subsidiaries are appropriate; and • based on the procedures performed we are satisfied that the Group's impairment charge is appropriately estimated in accordance with the requirements of IAS 36 '*Impairment of Assets*'.

5.2. Valuation of decommissioning liability

Key audit matter description	*The decommissioning provision at 31 December 2020 was $831 million (2019: $752 million). The provision represents the present value of decommissioning costs which are expected to be incurred up to 2048, assuming no further development on the Group's assets. Further details on the key sources of estimation uncertainty underpinning the valuation of decommissioning provisions can be found in note 2. Details on the sensitivity to changes in key assumptions such as discount rates are disclosed in note 23.* Decommissioning liabilities are inherently judgemental areas, in particular in relation to gross cost estimates. The key assumptions and judgements underpinning the impairment reviews include: • cessation of production dates; • post cessation of production opex estimate; • rates and norms assumptions; • discount rate; and • inflation rate. The two key management estimates that could result in a material misstatement within the calculation: • internal well cost estimates included in the decommissioning model; and • internal cost reduction factors applied to the decommissioning model. The Group's Audit Committee has included this key audit matter in their Audit Committee Report for the year ended 31 December 2020 on page 79. The Group's accounting policies are detailed in note 23, which include details of the sensitivity to changes in assumptions.
How the scope of our audit responded to the key audit matter	**Procedures relating to internal control** • we assessed management's decommissioning processes, and the oversight and governance of those processes in relation to decommissioning; and • we obtained an understanding of the relevant controls and then evaluated the associated design and implementation of such controls relating to the decommissioning provision. **Procedures relating to the decommissioning model** • we held meetings with the Group's internal and external experts responsible for determining the 2020 decommissioning estimates to understand the underlying assumptions and methodology applied; • we assessed the technical competence, experience, objectivity and independence of internal and external experts; • we checked decommissioning calculations for clerical accuracy and compliance with IAS 37 *'Provisions'*; • we challenged the Group's other key assumptions including the cessation of production dates; post cessation of production opex estimate; rates and norms assumptions; discount rate; and inflation rates for reasonableness and consistency with the external market expectations; • we tested the mechanical accuracy of the cost estimate; • we tested for actual decommissioning costs incurred during the period and recognised against the provision; and • we evaluated and challenged management's disclosures including in the sensitivity of decommissioning assumptions. **Procedures on internal well cost estimates** • we challenged the Group's rate assumptions within the cost estimate (rig services; vessels; timewriting) and benchmarked to peer and market rates; and • we assessed the duration assumptions for plug and abandonment of wells. **Procedures on Internal cost reduction factors** • we challenged the Group's cost reduction factors applied to the decommissioning model through benchmarking and considering contradictory evidence from peers and agreeing to supporting evidence; and • obtained supporting evidence for the factors applied.
Key observations	• we have not identified any material errors in the decommissioning estimates and concluded that the inputs and key assumptions used to estimate the future costs were reasonable; • we are satisfied that the Group's decommissioning provision is appropriately estimated in accordance with the requirements of IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*'; and • we are satisfied the disclosures in the Financial Statements are appropriate.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
Materiality	$16.5 million (2019: $20.1 million)	$1.1 million (2019: $11.5 million)
Basis for determining materiality	We determined Group materiality on the basis of 3% of EBITDA (earnings before interest, tax, depreciation and amortisation) (2019: 2% of EBITDA). Management has presented a reconciliation of $550.6 million EBITDA to loss from continuing activities in the glossary of the Financial Statements.	We determined the Parent Company materiality based on 3% of net assets (2019: 1% of net assets).
Rationale for the benchmark applied	EBITDA was considered to be the most relevant benchmark as it is of most interest to stakeholders and is a key performance measure used by investors. The Group incurred losses before tax in both its Business performance and statutory results. Our materiality represents 2.9% of reported loss before tax.	The Parent Company acts principally as a holding company and therefore net assets is a key measure for this business.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole.

	Group Financial Statements	Parent Company Financial Statements
Performance materiality	60% of Group materiality	60% of Parent Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered factors including our ability to rely on internal controls for procure to pay business cycle; the number of uncorrected and corrected misstatements identified in the previous audit; the stability of the finance team following restructuring completed in 2020; management's willingness to correct errors identified; and this being our first year appointed as auditor.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.8 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. In the current year we performed full scope audit procedures on the North Sea and Malaysia segments. Audit procedures were performed by the Group team for North Sea and Malaysia component team for Malaysia. We performed full scope audit procedures for Malaysia compared to audit procedures on specified balances by the predecessor auditor as this was our first year as auditors.

The materiality applied by the Malaysia component for the 2020 year end was $7.5 million.

In the current year the North Sea and Malaysia components, where we performed full scope audit procedures, accounted for 100% of the Group's revenue, 100% of the Group's EBITDA and 100% of the Group's net assets. The Malaysia component contributed 7% of the Group's revenue, 4% of the Group's EBITDA and 6% of the Group's total assets.

7.2. Our consideration of the control environment
We obtained an understanding of the relevant controls in relation to key business processes as well as IT systems that were relevant to the audit.

The key IT systems that were relevant to the audit were determined to be the financial reporting system and the inventory and payables systems for the Group, given the importance of IT to the recording of financial information and transactions. We worked with our IT specialists to test the operating effectiveness of the IT controls associated with these systems and we were able to rely on the IT controls where planned.

We relied on controls for the procure-to-pay business cycle by testing the key controls including:
- interface between the systems for approved invoices;
- purchase order approval restrictions;
- restrictions on ability to change vendor bank details; and
- automated 3 way match controls.

7.3. Working with other auditors
The North Sea component was audited by the Group team and we oversaw the Malaysia component audit through regular meetings and direct supervision. We were unable to visit Malaysia due to COVID-19 travel restrictions. We organised planning and working meetings virtually, led by the audit partner or other senior members of the engagement team. Throughout the year, the Group audit team has been directly involved in overseeing the component audit planning and execution, through frequent conversations, team meetings, debate, challenge and review of reporting and underlying work papers. In addition to our direct interactions, we sent detailed instructions to the component audit team and attended audit closing meetings. We are satisfied that the level of involvement of the lead audit partner and team in the component audit has been extensive, and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group Financial Statements as a whole.

8. 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 our 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 this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, 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.

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed on the following page.

11.1. Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:
- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including significant component audit team and relevant internal specialists, including tax, valuations, IT, modelling, and oil and gas reserves regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:
- impairment of oil and gas assets and goodwill;
- estimation of oil & gas reserves;
- valuation of decommissioning provision;
- going concern; and
- revenue recognition crude oil.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority and the relevant tax compliance regulations in the jurisdictions in which EnQuest operates.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included Market Abuse regulation and environmental laws and regulations in the countries in which the Group operates and anti-bribery and corruption legislation.

11.2. Audit response to risks identified
As a result of performing the above, we identified impairment of oil and gas assets and goodwill and valuation of Magnus contingent consideration; valuation of decommissioning provision; and going concern related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:
- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant authorities where matters identified were significant;
- we identified the estimation of oil and gas reserves and revenue recognition of crude oil cut off as fraud risks which were not identified as key audit matters. For oil and gas reserves we evaluated production profiles by reference to external reserve estimates and confirmed estimates of oil and gas reserves to third party reserve reports, assessing the skills, qualifications and independence of those third party experts, using our own internal specialists and for revenue recognition of crude oil cut off we tested a sample of invoices from a population of December 2020 and January 2021 sales invoices to address the risk; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and the component audit team, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with 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 the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements and our knowledge obtained during the audit:
- the Directors' Statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 30 and 31;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 30 and 31;
- the Directors' statement on fair, balanced and understandable set out on page 78;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 47 to 59;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 80; and
- the section describing the work of the Audit Committee set out on pages 78 to 80.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by shareholders in 21 May 2020 to audit the Financial Statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is one year, being the year ending 31 December 2020.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. 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.

James Leigh FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
24 March 2021

Group Income Statement

For the year ended 31 December 2020

	Notes	2020 Business performance $'000	2020 Remeasurements and exceptional items (note 4) $'000	2020 Reported in year $'000	2019 Business performance $'000	2019 Remeasurements and exceptional items (note 4) $'000	2019 Reported in year $'000
Revenue and other operating income	5(a)	**856,870**	**8,778**	**865,648**	1,711,834	(65,375)	1,646,459
Cost of sales	5(b)	**(785,455)**	**(13,626)**	**(799,081)**	(1,243,570)	(378)	(1,243,948)
Gross profit/(loss)		**71,415**	**(4,848)**	**66,567**	468,264	(65,753)	402,511
Net impairment to oil and gas assets	4	**–**	**(422,495)**	**(422,495)**	–	(812,448)	(812,448)
General and administration expenses	5(c)	**(6,105)**	**–**	**(6,105)**	(7,661)	–	(7,661)
Other income	5(d)	**16,304**	**138,249**	**154,553**	3,446	–	3,446
Other expenses	5(e)	**(101,633)**	**(956)**	**(102,589)**	(21,881)	(31,735)	(53,616)
Profit/(loss) from operations before tax and finance income/(costs)		**(20,019)**	**(290,050)**	**(310,069)**	442,168	(909,936)	(467,768)
Finance costs	6	**(179,818)**	**(77,259)**	**(257,077)**	(206,596)	(57,165)	(263,761)
Finance income	6	**1,171**	**–**	**1,171**	2,416	–	2,416
Profit/(loss) before tax		**(198,666)**	**(367,309)**	**(565,975)**	237,988	(967,101)	(729,113)
Income tax	7	**172,479**	**(232,306)**	**(59,827)**	(23,648)	303,460	279,812
Profit/(loss) for the year attributable to owners of the parent		**(26,187)**	**(599,615)**	**(625,802)**	214,340	(663,641)	(449,301)
Total comprehensive loss for the year, attributable to owners of the parent				**(625,802)**			(449,301)

There is no comprehensive income attributable to the shareholders of the Group other than the loss for the year. Revenue and operating (loss)/profit are all derived from continuing operations.

	Notes	2020 Business performance	2020 Reported in year	2019 Business performance	2019 Reported in year
Earnings per share	8	**$**	**$**	$	$
Basic		**(0.016)**	**(0.378)**	0.131	(0.274)
Diluted		**(0.016)**	**(0.378)**	0.130	(0.274)

The attached notes 1 to 30 form part of these Group financial statements.

Group Balance Sheet

At 31 December 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,633,917**	3,450,929
Goodwill	11	**134,400**	134,400
Intangible oil and gas assets	12	**27,546**	27,553
Deferred tax assets	7(c)	**503,946**	576,038
Other financial assets	19	**7**	11
		3,299,816	4,188,931
Current assets			
Inventories	13	**59,784**	78,644
Trade and other receivables	16	**118,715**	279,502
Current tax receivable		**5,601**	–
Cash and cash equivalents	14	**222,830**	220,456
Other financial assets	19	**–**	9,083
		406,930	587,685
TOTAL ASSETS		**3,706,746**	4,776,616
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	20	**345,420**	345,420
Merger reserve	20	**–**	662,855
Share-based payment reserve	20	**1,016**	(1,085)
Retained earnings	20	**(411,076)**	(448,129)
TOTAL EQUITY		**(64,640)**	559,061
Non-current liabilities			
Borrowings	18	**37,854**	493,424
Bonds	18	**1,045,041**	966,231
Leases liability	24	**548,407**	614,818
Contingent consideration	22	**448,384**	545,550
Provisions	23	**741,453**	706,190
Deferred tax liabilities	7(c)	**6,385**	20,919
		2,827,524	3,347,132
Current liabilities			
Borrowings	18	**414,430**	165,589
Leases liability	24	**99,439**	101,348
Contingent consideration	22	**73,877**	111,711
Provisions	23	**98,954**	56,769
Trade and other payables	17	**255,155**	419,855
Other financial liabilities	19	**2,007**	11,073
Current tax payable		**–**	4,078
		943,862	870,423
TOTAL LIABILITIES		**3,771,386**	4,217,555
TOTAL EQUITY AND LIABILITIES		**3,706,746**	4,776,616

The attached notes 1 to 30 form part of these Group financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 24 March 2021 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital and share premium $'000	Merger reserve $'000	Share-based payments reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2019	345,331	662,855	(6,884)	1,172	1,002,474
Profit/(loss) for the year	–	–	–	(449,301)	(449,301)
Total comprehensive loss for the year	–	–	–	(449,301)	(449,301)
Share-based payment	–	–	5,888	–	5,888
Shares issued on behalf of Employee Benefit Trust	89	–	(89)	–	–
Balance at 31 December 2019	**345,420**	**662,855**	**(1,085)**	**(448,129)**	**559,061**
Profit/(loss) for the year	**–**	**–**	**–**	**(625,802)**	**(625,802)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(625,802)**	**(625,802)**
Share-based payment	**–**	**–**	**3,401**	**–**	**3,401**
Shares purchased on behalf of Employee Benefit Trust	**–**	**–**	**(1,300)**	**–**	**(1,300)**
Write down of oil and gas assets	**–**	**(662,855)**	**–**	**662,855**	**–**
Balance at 31 December 2020	**345,420**	**–**	**1,016**	**(411,076)**	**(64,640)**

The attached notes 1 to 30 form part of these Group financial statements.

Group Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	29	**567,830**	994,618
Cash received/(paid) on sale/(purchase) of financial instruments		**6,226**	4,936
Decommissioning spend	23	**(41,605)**	(11,131)
Income taxes paid		**(10,366)**	(26,152)
Net cash flows from/(used in) operating activities		**522,085**	962,271
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(131,376)**	(234,241)
Purchase of intangible oil and gas assets		**–**	(3,241)
Net cash received on termination of Tanjong Baram risk service contract	5(d)	**51,054**	–
Repayment of Magnus contingent consideration – Profit share	22	**(41,071)**	(21,581)
Interest received		**796**	1,225
Net cash flows (used in)/from investing activities		**(120,597)**	(257,838)
FINANCING ACTIVITIES			
Repayment of loans and borrowings		**(210,671)**	(394,025)
Repayment of Magnus contingent consideration – Vendor loan	22	**(20,702)**	(52,669)
Shares purchased by Employee Benefit Trust		**(1,153)**	–
Repayment of obligations under financing leases	24	**(123,001)**	(135,125)
Interest paid		**(42,961)**	(146,047)
Other finance costs paid		**(2,526)**	(2,130)
Net cash flows from/(used in) financing activities		**(401,014)**	(729,996)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**474**	(25,563)
Net foreign exchange on cash and cash equivalents		**2,482**	6,562
Cash and cash equivalents at 1 January		**218,199**	237,200
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**221,155**	218,199
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows	14	**221,155**	218,199
Restricted cash	14	**1,675**	2,257
Cash and cash equivalents per balance sheet		**222,830**	220,456

The attached notes 1 to 30 form part of these Group financial statements.

Notes to the Group Financial Statements

For the year ended 31 December 2020

1. Corporate information

EnQuest PLC ('EnQuest' or the 'Company') is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales and listed on the London Stock Exchange and on the Stockholm NASDAQ OMX. The address of the Company's registered office is shown on page 166.

The principal activities of the Company and its subsidiaries (together the 'Group') are to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner.

The Group's financial statements for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 24 March 2021.

A listing of the Group's companies is contained in note 28 to these Group financial statements.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020.

The Group financial information has been prepared on an historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives and contingent consideration, as set out in the accounting policies. The presentation currency of the Group financial information is US Dollars ('$') and all values in the Group financial information are rounded to the nearest thousand ($'000) except where otherwise stated.

The Group's results on an IFRS basis are shown on the Group Income Statement as 'Reported in the year', being the sum of our Business performance results and our Remeasurements and exceptional items as permitted by IAS 1 (Revised) Presentation of Financial Statements. Remeasurements and exceptional items are items that management considers not to be part of underlying business performance and are disclosed in order to enable shareholders to understand better and evaluate the Group's reported financial performance. For further information see note 4.

Going concern

The financial statements have been prepared on the going concern basis.

The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results, to ensure that it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and costs. These forecasts and sensitivity analyses allow management to mitigate liquidity or covenant compliance risks in a timely manner. Management has also settled the required term loan amortisations on or ahead of schedule, with no further scheduled payments required prior to maturity in October 2021 following the voluntary repayment of the April 2021 amortisation in the fourth quarter of 2020.

The Group continues to monitor actively the impact on operations from COVID-19 and the health, safety and wellbeing of its employees is its top priority. The Group remains compliant with UK, Malaysia and Dubai government and industry policy. The Group has also been working with a variety of stakeholders, including industry and medical organisations, to ensure its operational response and advice to its workforce is appropriate and commensurate with the prevailing expert advice and level of risk. At the time of publication of EnQuest's full year results, the Group's day-to-day operations continue without being materially affected by COVID-19.

The Group's latest approved business plan underpins management's base case ('Base Case') and is in line with the Group's production guidance, assumes a refinancing of the existing Revolving Credit Facility ('RCF') prior to maturity in October 2021 with a new facility and uses oil price assumptions of $60.0/bbl from March to December 2021 and $58.0/bbl to the end of the first quarter 2022.

The Base Case has been subjected to stress testing by considering the impact of the following plausible downside risks (the 'Downside Case'):

- 10.0% discount to Base Case prices resulting in Downside Case prices of $54.0/bbl from March to December 2021 and $52.2/bbl for 2022;
- Production risking of c.4.0% for 2021; and
- Incremental decommissioning security of $43 million is met through letters of credit resulting in a reduction in headroom as letters of credit are drawings under the RCF.

The Base Case and Downside Case indicate that the Group is able to operate as a going concern with refinanced borrowing facilities for 12 months from the date of publication of its full year results. The Directors have also performed reverse stress testing on the Base Case, with the breakeven price for liquidity in the going concern period being c.$30/bbl under the assumption the existing facility is refinanced. In addition, under the Base Case prices, a minimum size of facility or alternative financing arrangement of approximately $100 million would be required to maintain positive headroom should the existing facility not be refinanced.

2. Summary of significant accounting policies continued

The quarterly liquidity covenant in the existing facility (the 'Liquidity Test') requires that the Group shows it has sufficient funds available to meet all liabilities of the Group when due and payable for the period commencing on each quarter and ending on the date falling 12 months after the final maturity date of 1 October 2021. The Liquidity Test will be applied for the quarters ended March 2021 and June 2021. The Liquidity Test assumptions include a price deck of the average forward oil price curve, minus a 10% discount, of 15 consecutive business days starting from approximately the middle of the previous quarter.

Under these prices, the Group forecasts no breaches in the Base Case for the Liquidity Test. By applying a discount in excess of 29% (19% in addition to the 10% discount stipulated in the Facility agreement), the Group would breach this covenant, prior to any mitigations such as asset divestments or other funding options. Under such an oil price scenario, the covenant breach would therefore require a covenant waiver to be obtained. The Directors are confident that waivers from the facility providers would be forthcoming. Should circumstances arise that differ from the Group's projections, the Directors believe that a number of mitigating actions, including refinancing, asset sales or other funding options, can be executed successfully in the necessary timeframe to meet debt repayment obligations as they become due and in order to maintain liquidity.

Within the going concern period, the RCF expires in October 2021 (see note 18). The Directors are confident that the Group will be able to refinance the RCF based on the Group's Base Case cash flow projections.

On 4 February 2021, the Group announced it had signed an agreement with Suncor Energy UK Limited ('Suncor') to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area for an initial consideration of $325 million, excluded from the Base Case. The Group also advised plans to finance the transaction through the combination of a new secured debt facility, an equity raise, and the interim period post-tax cash flows generated from the economic date of 1 January 2021 to transaction completion.

A final term sheet has been agreed following bilateral discussions with DNB and BNP (lead and co-technical banks) and has been approved by their respective credit committees. DNB and BNP have also received credit committee approval for material commitments to the new financing. The Directors are confident they will be able to complete the new financing given the feedback it has had from both current lenders and also potential new lenders. In the unlikely event the Suncor acquisition does not complete, the Directors are also confident they will be able to negotiate a new facility based on the Group's existing asset base or alternative financing arrangements such as a prepayment facility would be available to bridge any shortfall.

Whilst securing lenders' commitment to the new facility remains on track, the new facility has not been signed at the time of publication of the Group's results. Although the Directors are confident that the new facility will be executed, the facility has not yet been signed; in these circumstances they have to conclude that this represents a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern, such that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the material uncertainty as described above, after making appropriate enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, and in particular the advanced state of the proposed refinancing agreement, the Directors have a reasonable expectation that the Group will continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

New standards and interpretations

The following new standards became applicable for the current reporting period. No material impact was recognised upon application:

- Amendments to References to Conceptual Framework in IFRS Standards
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7)
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Impact of the initial application of COVID-19-Related Rent Concessions (Amendment to IFRS 16)

Standards issued but not yet effective

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

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

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

Basis of consolidation
The consolidated financial statements incorporate the financial statements of EnQuest PLC and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Joint arrangements
Oil and gas operations are usually conducted by the Group as co-licensees in unincorporated joint operations with other companies. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the consent of the relevant parties sharing control. The joint operating agreement is the underlying contractual framework to the joint arrangement, which is historically referred to as the joint venture ('JV'). The Annual Report and Accounts therefore refers to 'joint ventures' as standard terms used in the oil and gas industry, which is used interchangeably with joint operations.

Most of the Group's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities relating to the arrangement. The Group reports its interests in joint operations using proportionate consolidation – the Group's share of the production, assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. During 2020, the Group did not have any material interests in joint ventures or in associates. During 2020, the Group did not have any material interests in joint ventures or in associates as defined in IAS 28.

Foreign currencies
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The Group's financial statements are presented in US Dollars, the currency which the Group has elected to use as its presentation currency.

In the financial statements of the Company and its individual subsidiaries, transactions in currencies other than a company's functional currency are recorded at the prevailing rate of exchange on the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to profit and loss in the Group income statement.

Critical accounting judgements
The Group assesses critical accounting judgements annually. The following are the critical judgements, apart from those involving estimations which are dealt with in the policy 'Key sources of estimation uncertainty' below, that the Directors have made in the process of applying the Group's accounting policies, which have the most significant effect on the amounts recognised in the financial statements.

Oil and gas reserves
The business of the Group is to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner. The process in determining the estimates of oil and gas reserves requires critical judgement. Factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity and drilling of new wells all impact on the determination of the Group's estimates of its oil and gas reserves and result in different future production profiles affecting prospectively the discounted cash flows used in impairment testing and the calculation of contingent consideration, the anticipated date of decommissioning and the depletion charges in accordance with the unit of production method, as well as the going concern assessment.

The Group uses proven and probable ('2P') reserves (see page 24) as the basis for calculations of expected future cash flows from underlying assets because this represents the reserves management intend to develop. Third-party audits of EnQuest's reserves and resources are conducted annually.

Key sources of estimation uncertainty
The key sources of estimation uncertainty concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed on the following page:

2. Summary of significant accounting policies continued

Future oil prices
Future oil prices are a key driver of estimation affecting the recoverable amount of oil and gas assets and are used in the calculation of future cash flows which impact contingent consideration and decommissioning. Oil and gas price assumptions are reviewed and, where necessary, adjusted on a periodic basis. The estimates take into account existing prices impacted by changes in supply and demand as a result of COVID-19, historical trends and variability and other macroeconomic factors. Significant uncertainty exists regarding future long-term oil and gas prices with factors such as the energy transition to a lower-carbon economy being considered in the updated assumptions. Review includes benchmarking and analysis against forward curves from available market data and other third-party forecasts, as well as review and challenge by the Audit Committee.

A reduction or increase in future oil prices of 10%, based on the approximate volatility of historical oil prices, are considered to be reasonably possible changes for the purposes of sensitivity analysis and reflects the inherent uncertainty of forecasting future oil price and the uncertainty of the impact of the energy transition. The impact of this sensitivity is disclosed in notes 7, 10 and 22.

As a result of the decline in global oil demand resulting from the COVID-19 pandemic, and the potential for weaker demand to continue as the energy transition to a lower-carbon economy continues, the Group revised its price assumptions for impairment testing. Oil price assumptions based on an internal view of forward curve prices at 31 December 2020 are $47/bbl (2021), $55/bbl (2022), $60/bbl (2023) and $60/bbl real thereafter, inflated at 2.0% per annum from 2024 (2019: $63.0/bbl (2020), $65.0/bbl (2021), $67.0/bbl (2022) and $70.0/bbl real thereafter, inflated at 2% per annum from 2024). Discounts or premiums are applied to price assumptions based on the characteristics of the oil produced and the terms of the relevant sales contracts.

Impairment testing of oil and gas assets and goodwill and valuation of Magnus contingent consideration
Determination of whether oil and gas assets or goodwill have suffered any impairment requires an estimation of the fair value less costs to dispose of the cash generating units ('CGU') to which oil and gas assets and goodwill have been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using the same discounted cash flow model used to assess the impairment of assets, which comprises asset-by-asset life of field projections using management's best estimates of oil and gas reserves, future oil prices and other Level 3 inputs (based on the IFRS 13 fair value hierarchy).

Determination of the Magnus contingent consideration valuation requires an estimation of the fair value less costs to dispose of the cash generating unit, the Magnus asset. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using the same discounted cash flow model used to assess the impairment of assets.

The calculation of the discounted cash flow models are based on the following:
- Oil prices (see above);
- Oil and gas reserves (see above);
- Production profiles based on internal life of field estimates including assumptions on performance of assets;
- Related life of field opex, capex and decommissioning costs derived from the Group's business plan adjusted for changes in timing based on the production profiles used as above; and
- Discount rates driven by a market participant's weighted average cost of capital.

The discount rate applied to fair value less costs of disposal calculations reflects management's estimate of a market participant weighted average cost of capital ('WACC'). The discount rate is a post-tax discount rate and is reviewed and, where necessary, adjusted on an annual basis. The post-tax discount rate applied to the Group's post-tax cash flow projections was 10.0% (2019: 10.0%). A reduction or increase in the discount rate of 1.0% are considered to be reasonably possible changes for the estimated purposes of sensitivity analysis. Sensitivities related to the discount rates are disclosed in note 10.

Decommissioning provision
Provisions for decommissioning and restoration costs are estimates based on current legal and constructive requirements, current technology and price levels for the removal of facilities and plugging and abandoning of wells. These parameters are based on information and estimates deemed to be appropriate by the Group at the current time. The eventual decommissioning and restoration costs are uncertain and estimates can vary in response to many factors, including changes to relevant legal requirements, estimates of the extent and costs of decommissioning activities, the emergence of new restoration techniques or experience at other production sites, cost increases as compared to the inflation rates, and changes in discount rates. The expected timing, extent and amount of expenditure may also change, for example, in response to changes in oil and gas reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. Due to the significant estimates and assumptions, the carrying amounts of decommissioning provisions are reviewed on a regular basis.

The present value of the provision for decommissioning is calculated using amounts discounted over the useful economic life of the assets. The Group applies an annual inflation rate of 2.0% (2019: 2.0%) and an annual discount rate of 2.0% to the UK ('North Sea') assets and 3.0% to the Malaysian assets (2019: 2.0% for both the UK and Malaysia). A reduction or increase in the discount rate of 0.5% are considered to be reasonably possible changes for the estimated purposes of sensitivity analysis. Sensitivities related to the discount rates are disclosed in note 23.

Deferred taxation
The Group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make assumptions and estimates relating to future oil prices and oil and gas reserves (as discussed above) and the estimated future costs, to assess the amount of deferred tax that can be recognised.

3. Segment information

Management has considered the requirements of IFRS 8 Operating Segments in regard to the determination of operating segments and concluded that the Group has two significant operating segments: the North Sea and Malaysia. Operations are managed by location and all information is presented per geographical segment. The information reported to the Chief Operating Decision Maker does not include an analysis of assets and liabilities, and accordingly this information is not presented.

Year ended 31 December 2020 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue:						
Revenue from contracts with customers	**792,508**	**62,917**	**–**	**855,425**	**–**	**855,425**
Other income	**7,224**	**–**	**280**	**7,504**	**2,719**	**10,223**
Total revenue	**799,732**	**62,917**	**280**	**862,929**	**2,719**	**865,648**
Income/(expenses) line items:						
Depreciation and depletion	**(430,169)**	**(15,638)**	**(56)**	**(445,863)**	**–**	**(445,863)**
Net impairment (charge)/reversal to oil and gas assets	**(422,495)**	**–**	**–**	**(422,495)**	**–**	**(422,495)**
Segment profit/(loss)(ii)	**(318,952)**	**4,153**	**3,372**	**(311,427)**	**1,358**	**(310,069)**
Other disclosures:						
Capital expenditure(iii)	**81,504**	**2,144**	**–**	**83,648**	**–**	**83,648**

Year ended 31 December 2019 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue:						
Revenue from contracts with customers	1,530,343	145,749	–	1,676,092	–	1,676,092
Other income	10,500	–	486	10,986	(40,619)	(29,633)
Total revenue	1,540,843	145,749	486	1,687,078	(40,619)	1,646,459
Income/(expenses) line items:						
Depreciation and depletion	(518,785)	(14,490)	(77)	(533,352)	–	(533,352)
Net impairment (charge)/reversal to oil and gas assets	(812,448)	–	–	(812,448)	–	(812,448)
Impairment reversal of investments	(20)	–	–	(20)	–	(20)
Exploration write offs and impairments	(150)	–	–	(150)	–	(150)
Segment profit/(loss)(ii)	(470,351)	49,429	(4,142)	(425,064)	(42,704)	(467,768)
Other disclosures:						
Capital expenditure(iii)	164,818	15,837	–	180,655	–	180,655

(i) Finance income and costs and gains and losses on derivatives are not allocated to individual segments as the underlying instruments are managed on a Group basis
(ii) Inter-segment revenues are eliminated on consolidation. All other adjustments are part of the reconciliations presented further below
(iii) Capital expenditure consists of property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries

Reconciliation of profit/(loss):

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Segment profit/(loss)	**(311,427)**	(425,064)
Finance income	**1,171**	2,416
Finance expense	**(257,077)**	(263,761)
Gain/(loss) on oil and foreign exchange derivatives	**1,358**	(42,704)
Profit/(loss) before tax	**(565,975)**	(729,113)

Revenue from four customers relating to the North Sea operating segment each exceeds 10% of the Group's consolidated revenue arising from sales of crude oil, with amounts of $188.9 million, $143.4 million, $113.1 million and $84.9 million per each single customer (2019: Three customers; $307.1 million, $266.1 million and $211.0 million per each single customer).

4. Remeasurements and exceptional items

Accounting policy

As permitted by IAS 1 (Revised) Presentation of Financial Statements, certain items of income or expense which are material are presented separately. Additional line items, headings, sub-totals and disclosures of nature and amount are presented to provide relevant understanding of the Group's financial performance.

Remeasurements and exceptional items are items that management considers not to be part of underlying business performance and are disclosed in order to enable shareholders to understand better and evaluate the Group's reported financial performance. The items that the Group separately presents as exceptional on the face of the Group income statement are those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance. Remeasurements relate to those items which are remeasured on a periodic basis and are applied consistently year-on-year. If an item is assessed as a remeasurement or exceptional item, then subsequent accounting to completion of the item is also taken through remeasurement and exceptional items. Management has exercised judgement in assessing the relevant material items disclosed as exceptional.

The following items are classified as remeasurements and exceptional items ('exceptional'):

- Unrealised mark-to-market changes in the remeasurement of open derivative contracts at each period end are recognised within remeasurements, with the recycling of realised amounts from remeasurements into Business performance income when a derivative instrument matures;
- Impairments on assets, including other non-routine write-offs/write-downs where deemed material, are remeasurements and are deemed to be exceptional in nature;
- Fair value accounting arising in relation to business combinations is deemed as exceptional in nature, as these transactions do not relate to the principal activities and day-to-day Business performance of the Group. The subsequent remeasurement of contingent assets and liabilities arising on acquisitions, including contingent consideration, are presented within remeasurements and are presented consistently year-on-year; and
- Other items that arise from time to time that are reviewed by management as non-Business performance and are disclosed further below.

Year ended 31 December 2020 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	**8,778**	**–**	**–**	**8,778**
Cost of sales	**(1,932)**	**–**	**(11,694)**	**(13,626)**
Net impairment (charge)/reversal on oil and gas assets	**–**	**(422,495)**	**–**	**(422,495)**
Other income	**138,249**	**–**	**–**	**138,249**
Other expense	**–**	**–**	**(956)**	**(956)**
Finance costs	**–**	**–**	**(77,259)**	**(77,259)**
	145,095	**(422,495)**	**(89,909)**	**(367,309)**
Tax on items above	**(57,687)**	**163,267**	**33,175**	**138,755**
De-recognition of undiscounted deferred tax asset(iv)	**–**	**(371,061)**	**–**	**(371,061)**
	87,408	**(630,289)**	**(56,734)**	**(599,615)**

Year ended 31 December 2019 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	(65,375)	–	–	(65,375)
Cost of sales	(378)	–	–	(378)
Net impairment (charge)/reversal on oil and gas assets	–	(812,448)	–	(812,448)
Other expenses	(15,520)	(170)	(16,045)	(31,735)
Finance costs	–	–	(57,165)	(57,165)
	(81,273)	(812,618)	(73,210)	(967,101)
Tax on items above	31,735	250,235	21,490	303,460
	(49,538)	(562,383)	(51,720)	(663,641)

(i) Fair value remeasurements include unrealised mark-to-market movements on derivative contracts and other financial instruments and the impact of recycled realised gains and losses out of 'Remeasurements and exceptional items' and into Business performance profit or loss of $6.8 million. Other income relates to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure of $138.2 million (note 22) (2019: other loss of $15.5 million)

(ii) Impairments and write offs include an impairment of tangible oil and gas assets totalling $422.5 million (note 10) (2019: impairment of $637.5 million plus other related intangibles)

(iii) Other items mainly relate to unwinding of discount on contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $77.3 million (note 22) (2019: $57.2 million), provision for the PM8/Seligi riser repair $5.9 million (note 23), loss on derecognition of assets related to the Seligi riser detachment $1.0m (note 5(b)) and the redundancy costs in relation to the Group's transformation programme of $5.8 million (2019: the cost for settlement of the historical KUFPEC claim of $15.6 million)

(iv) Non-cash partial de-recognition of undiscounted deferred tax assets given the Group's lower oil price assumptions

5. Revenue and expenses

(a) Revenue and other operating income

Accounting policy

Revenue from contracts with customers

The Group generates revenue through the sale of crude oil, gas and condensate to third parties, and through the provision of infrastructure to its customers for tariff income. Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The normal credit term is 30 days or less upon performance of the obligation.

Sale of crude oil, gas and condensate

The Group sells crude oil, gas and condensate directly to customers. The sale represents a single performance obligation, being the sale of barrels equivalent to the customer on taking physical possession or on delivery of the commodity into an infrastructure. At this point the title passes to the customer and revenue is recognised. The Group principally satisfies its performance obligations at a point in time; the amounts of revenue recognised relating to performance obligations satisfied over time are not significant. Transaction prices are referenced to quoted prices, plus or minus an agreed discount rate, if applicable.

Tariff revenue for the use of Group infrastructure

Tariffs are charged to customers for the use of infrastructure owned by the Group. The revenue represents the performance of an obligation for the use of Group assets over the life of the contract. The use of the assets is not separable as they are interdependent in order to fulfil the contract and no one item of infrastructure can be individually isolated. Revenue is recognised as the performance obligations are satisfied over the period of the contract, generally a period of 12 months or less, on a monthly basis based on throughput at the agreed contracted rates.

Other operating income

Other revenue includes rental income, which is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured.

The Group enters into oil derivative trading transactions which can be settled net in cash. Accordingly, any gains or losses are not considered to constitute revenue from contracts with customers in accordance with the requirements of IFRS 15, and are included within other operating income (see note 19).

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Revenue from contracts with customers:		
Revenue from crude oil sales	**779,865**	1,548,177
Revenue from gas and condensate sales[(i)]	**60,486**	120,242
Tariff revenue	**15,074**	7,673
Total revenue from contracts with customers	**855,425**	1,676,092
Rental income	**5,706**	7,082
Realised (losses)/gains on oil derivative contracts (see note 19)	**(6,059)**	24,756
Other	**1,798**	3,904
Business performance revenue and other operating income	**856,870**	1,711,834
Unrealised (losses)/gains on oil derivative contracts[(ii)] (see note 19)	**8,778**	(65,375)
Total revenue and other operating income	**865,648**	1,646,459

(i) Includes onward sale of third-party gas purchases not required for injection activities at Magnus
(ii) Unrealised gains and losses on oil derivative contracts are disclosed as fair value remeasurement items in the income statement (see note 4)

Disaggregation of revenue from contracts with customers

	Year ended 31 December 2020 $'000		Year ended 31 December 2019 $'000	
	North Sea	**Malaysia**	North Sea	Malaysia
Revenue from contracts with customers:				
Revenue from crude oil sales	**719,504**	**60,361**	1,405,956	142,221
Revenue from gas and condensate sales	**57,930**	**2,556**	116,714	3,528
Tariff revenue	**15,074**	**–**	7,673	–
Total revenue from contracts with customers	**792,508**	**62,917**	1,530,343	145,749

5. Revenue and expenses continued

(b) Cost of sales

Accounting policy

Production imbalances, movements in under/over-lift and movements in inventory are included in cost of sales. The over-lift liability is recorded at the cost of the production imbalance to represent a provision for production costs attributable to the volumes sold in excess of entitlement. The under-lift asset is recorded at the lower of cost and net realisable value, consistent with IAS 2, to represent a right to additional physical inventory. An under-lift of production from a field is included in current receivables and an over-lift of production from a field is included in current liabilities.

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Production costs	**265,529**	441,624
Tariff and transportation expenses	**63,685**	74,782
Realised loss/(gain) on derivative contracts related to operating costs (see note 19)	**(572)**	1,707
Change in lifting position	**(31,508)**	96,886
Crude oil inventory movement	**(3,293)**	5,967
Depletion of oil and gas assets[(i)]	**438,247**	525,145
Other cost of operations[(ii)]	**53,367**	97,459
Business performance cost of sales	**785,455**	1,243,570
Unrealised (gains)/losses on derivative contracts related to operating costs[(iii)] (see note 19)	**1,932**	378
Redundancy costs related to the transformation programme	**5,792**	–
PM8/Seligi riser repair provision (see note 23)	**5,902**	–
Total cost of sales	**799,081**	1,243,948

(i) Includes $68.5 million Kraken FPSO right-of-use asset depreciation charge and $10.5 million of vessels within right-of-use assets depreciation charge
(ii) Includes $24.7 million of inventory provisions and also includes purchases of third-party gas not required for injection activities at Magnus which is sold on
(iii) Unrealised gains and losses on derivative contracts are disclosed as fair value remeasurement in the income statement (see note 4)

(c) General and administration expenses

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Staff costs (see note 5(f))	**85,813**	90,764
Depreciation[(i)]	**7,616**	8,207
Other general and administration costs	**21,831**	23,094
Recharge of costs to operations and joint venture partners	**(109,155)**	(114,404)
Total general and administration expenses	**6,105**	7,661

(i) Includes $3.7 million right-of-use assets depreciation charge on buildings

(d) Other income

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Gain on termination of Tanjong Baram risk service contract	**10,209**	–
Other income	**6,095**	3,446
Business performance other income	**16,304**	3,446
Fair value changes in contingent consideration (see note 22)	**138,249**	–
Total other income	**154,553**	3,446

On 3 March 2020, the Group terminated the Tanjong Baram small field risk service contract with Petronas. Following the termination, the Group received three instalments from Petronas for the reimbursement of net outstanding capital expenditure of $51.1 million. The Group received $72.9 million from Petronas in 2020, of which $21.8 million was received on behalf of the non-operating partner and immediately transferred. The amount has been presented net in the statement of cash flows to represent the substance of the transaction. On termination, the Tanjong Baram assets were carried at c.$40 million resulting in the $10.2 million gain (see note 10).

(e) Other expenses

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Net foreign exchange losses	**4,625**	16,427
Change in decommissioning provisions	**83,199**	–
Change in Thistle decommissioning provisions (note 23)	**11,998**	–
Other	**1,811**	5,454
Business performance other expenses	**101,633**	21,881
Loss on derecognition of assets related to the Seligi riser detachment	**956**	–
Fair value changes in contingent consideration (see note 22)	**–**	15,520
Settlement provision (see note 23)	**–**	15,630
Other	**–**	585
Total other expenses	**102,589**	53,616

(f) Staff costs

Accounting policy

Short-term employee benefits such as salaries, social premiums and holiday pay, are expensed when incurred.

The Group's pension obligations consist of defined contribution plans. The Group pays fixed contributions with no further payment obligations once the contributions have been paid. The amount charged to the Group income statement in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the balance sheet.

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Wages and salaries	**85,913**	88,951
Social security costs	**9,118**	9,511
Defined contribution pension costs	**6,871**	7,115
Expense of share-based payments (see note 21)	**3,401**	5,886
Other staff costs	**12,781**	12,609
Total employee costs	**118,084**	124,072
Contractor costs	**39,371**	50,975
Total staff costs	**157,455**	175,047

General and administration staff costs (see note 5(c))	**85,813**	90,764
Non-general and administration costs	**71,642**	84,283
Total staff costs	**157,455**	175,047

In 2020, the Group changed its methodology for disclosing staff costs and therefore the 2019 allocation of staff costs has been restated to ensure consistency.

The average number of persons, excluding contractors, employed by the Group during the year was 885, with 383 in the general and administration staff costs and 502 directly attributable to assets (2018: 958 of which 407 in general and administration and 551 directly attributable to assets). Compensation of key management personnel is disclosed in note 26 and in the remuneration report on page 91.

5. Revenue and expenses continued

(g) Auditor's remuneration

Following a comparative tender process held during 2019, Deloitte LLP ('Deloitte') was appointed as auditor replacing Ernst and Young LLP ('EY'). The following amounts for the year ended 31 December 2020 were payable by the Group to Deloitte and for the year ended 31 December 2019 to EY:

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**649**	682
The audit of the Company's subsidiaries	**178**	176
Total audit	**827**	858
Audit related assurance services[(i)]	**180**	136
Total audit and audit related assurance services	**1,007**	994
Tax services	**10**	12
Total auditor's remuneration	**1,017**	1,006

(i) Audit-related assurance services include the review of the Group's interim results and assurance work in respect of the Group's joint venture activities

6. Finance costs/income

Accounting policy

Borrowing costs are recognised as interest payable within finance costs in accordance with the effective interest method.

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Finance costs:		
Loan interest payable	**32,791**	67,749
Bond interest payable	**73,476**	62,694
Unwinding of discount on decommissioning provisions (see note 23)	**14,512**	13,410
Unwinding of discount on Thistle decommissioning provisions (see note 23)	**796**	671
Finance charges payable under leases	**50,851**	55,686
Amortisation of finance fees on loans and bonds	**5,417**	5,727
Other financial expenses	**1,975**	2,055
	179,818	207,992
Less: amounts capitalised to the cost of qualifying assets	**–**	(1,396)
Business performance finance expenses	**179,818**	206,596
Finance costs on contingent consideration (see note 22)	**77,259**	57,165
Total finance costs	**257,077**	263,761
Finance income:		
Bank interest receivable	**896**	1,511
Unwinding of discount on financial asset (see note 19(e))	**275**	905
Total finance income	**1,171**	2,416

7. Income tax

(a) Income tax

Accounting policy

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

The Group's operations are subject to a number of specific tax rules which apply to exploration, development and production. In addition, the tax provision is prepared before the relevant companies have filed their tax returns with the relevant tax authorities and, significantly, before these have been agreed. As a result of these factors, the tax provision process necessarily involves the use of a number of estimates and judgements including those required in calculating the effective tax rate. In considering the tax on exceptional items, the Group applies the appropriate statutory tax rate to each item to calculate the relevant tax charge on exceptional items.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is measured on an undiscounted basis using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legal right exists to offset current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Production taxes

In addition to corporate income taxes, the Group's financial statements also include and disclose production taxes on net income determined from oil and gas production.

Production tax relates to Petroleum Revenue Tax ('PRT') within the UK and is accounted for under IAS 12 Income Taxes since it has the characteristics of an income tax as it is imposed under government authority and the amount payable is based on taxable profits of the relevant fields. Current and deferred PRT is provided on the same basis as described above for income taxes.

Investment allowance

The UK taxation regime provides for a reduction in ring-fence supplementary charge tax where investment in new or existing UK assets qualify for a relief known as investment allowance. Investment allowance must be activated by commercial production from the same field before it can be claimed. The Group has both unactivated and activated investment allowances which could reduce future supplementary charge taxation. The Group's policy is that investment allowance is recognised as a reduction in the charge to taxation in the years claimed.

The major components of income tax (credit)/expense are as follows:

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Current UK income tax		
Current income tax charge	**–**	354
Adjustments in respect of current income tax of previous years	**140**	(745)
Current overseas income tax		
Current income tax charge	**2,424**	20,894
Adjustments in respect of current income tax of previous years	**(295)**	(4,102)
Total current income tax	**2,269**	16,401
Deferred UK income tax		
Relating to origination and reversal of temporary differences	**58,184**	(277,198)
Adjustments in respect of changes in tax rates	**1**	–
Adjustments in respect of deferred income tax of previous years	**2,660**	(21,309)
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**(5,135)**	(953)
Adjustments in respect of deferred income tax of previous years	**1,848**	3,247
Total deferred income tax	**57,558**	(296,213)
Income tax (credit)/expense reported in profit or loss	**59,827**	(279,812)

7. Income tax continued

(b) Reconciliation of total income tax charge

A reconciliation between the income tax charge and the product of accounting profit multiplied by the UK statutory tax rate is as follows:

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Profit/(loss) before tax	**(565,975)**	(729,113)
UK statutory tax rate applying to North Sea oil and gas activities of 40% (2019: 40%)	**(226,390)**	(291,645)
Supplementary corporation tax non-deductible expenditure	**17,761**	18,593
Petroleum revenue tax (net of income tax benefit)	**(2,548)**	–
Non-deductible expenditure/income	**(3,449)**	89,746
North Sea tax reliefs	**(106,685)**	(84,273)
Tax in respect of non-ring-fence trade	**6,737**	11,269
Deferred tax asset impairment	**371,061**	–
Deferred tax rate changes	**1**	–
Adjustments in respect of prior years	**4,352**	(22,909)
Overseas tax rate differences	**(1,250)**	(1,064)
Share-based payments	**1,097**	2,013
Other differences	**(860)**	(1,542)
At the effective income tax rate of (11)% (2019: 38%)	**59,827**	(279,812)

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		(Credit)/charge for the year recognised in profit or loss	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Deferred tax liability				
Accelerated capital allowances	**821,253**	1,057,805	**(236,551)**	(343,152)
	821,253	1,057,805		
Deferred tax asset				
Losses	**(825,588)**	(1,102,534)	**276,945**	110,455
Decommissioning liability	**(310,697)**	(284,057)	**(26,640)**	(16,103)
Other temporary differences	**(182,529)**	(226,333)	**43,804**	(47,413)
	(1,318,814)	(1,612,924)		
Deferred tax expense			**57,558**	(296,213)
Net deferred tax (assets)/liabilities	**(497,561)**	(555,119)		
Reflected in the balance sheet as follows:				
Deferred tax assets	**(503,946)**	(576,038)		
Deferred tax liabilities	**6,385**	20,919		
Net deferred tax (assets)/liabilities	**(497,561)**	(555,119)		

Reconciliation of net deferred tax assets/(liabilities)

	2020 $'000	2019 $'000
At 1 January	**555,119**	258,906
Tax income/(expense) during the period recognised in profit or loss	**(57,558)**	296,213
At 31 December	**497,561**	555,119

(d) Tax losses

The Group's deferred tax assets at 31 December 2020 are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the UK can be utilised. At 31 December 2020, $371.1 million of the Group's ring-fence deferred tax assets have not been recognised as there are currently insufficient future profits forecast to utilise them fully. In accordance with IAS 12 Income Taxes, the Group assesses the recoverability of its deferred tax assets at each period end. Sensitivities have been run on the oil price assumption, with a 10% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10% reduction in oil price would result in an additional deferred tax asset impairment of $328.9 million and a 10% increase in oil price would result in a reduction in deferred tax asset impairment of $285.4 million.

The Group has unused UK mainstream corporation tax losses of $320.7 million (2019: $297.8million) for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of the creation of non-ring-fence profits and therefore uncertainty over the recovery of these losses. In addition, the Group has not recognised a deferred tax asset for the adjustment to bond valuations on the adoption of IFRS 9. The benefit of this deduction is taken over ten years with a deduction of $2.2 million being taken in the current period with the remaining benefit of $15.1 million remaining unrecognised.

The Group has unused overseas tax losses in Canada of approximately CAD$13.5 million (2019: CAD$13.5 million) for which no deferred tax asset has been recognised at the balance sheet date. The tax losses in Canada have expiry periods of 20 years, none of which expire in 2020, and which arose following the change in control of the Stratic Group in 2010.

The Group has unused Malaysian income tax losses of $14.3 million (2019: $12.2 million) arising in respect of the Tanjong Baram RSC for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of recovery of these losses.

No deferred tax has been provided on unremitted earnings of overseas subsidiaries. The Finance Act 2009 exempted foreign dividends from the scope of UK corporation tax where certain conditions are satisfied.

(e) Changes in legislation

The Finance Act 2020 enacted a change in the mainstream corporation tax rate to 19% with effect from 1 April 2020. As all UK mainstream corporation tax losses are not recognised there is minimal impact in 2020 resulting from this change. In the Budget statement on 3 March 2021, it was announced that the corporation tax rate will increase to 25% from 1 April 2023. This change is expected to have no impact.

8. Earnings per share

The calculation of earnings per share is based on the profit after tax and on the weighted average number of Ordinary shares in issue during the period. Diluted earnings per share is adjusted for the effects of Ordinary shares granted under the share-based payment plans, which are held in the Employee Benefit Trust, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

Basic and diluted earnings per share are calculated as follows:

	Profit/(loss) after tax		Weighted average number of Ordinary shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2020 $'000	2019 $'000	**2020 million**	2019 million	**2020 $**	2019 $
Basic	**(625,802)**	(449,301)	**1,655.0**	1,640.1	**(0.378)**	(0.274)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**15.1**	14.7	**–**	–
Diluted[(i)]	**(625,802)**	(449,301)	**1,670.1**	1,654.8	**(0.378)**	(0.274)
Basic (excluding remeasurements and exceptional items)	**(26,187)**	214,340	**1,655.0**	1,640.1	**(0.016)**	0.131
Diluted (excluding remeasurements and exceptional items)[(i)]	**(26,187)**	214,340	**1,670.1**	1,654.8	**(0.016)**	0.130

(i) Potential ordinary shares are not treated as dilutive when they would decrease a loss per share

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2020 (2019: none). At 31 December 2020, there are no proposed dividends (2019: none).

10. Property, plant and equipment

Accounting policy

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment charges.

Cost

Cost comprises the purchase price or cost relating to development, including the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells and any other costs directly attributable to making that asset capable of operating as intended by management. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the other operating income or expense line item in the consolidated income statement when the asset is derecognised.

Development assets

Expenditure relating to development of assets including the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells, is capitalised within property, plant and equipment.

Carry arrangements

Where amounts are paid on behalf of a carried party these are capitalised. Where there is an obligation to make payments on behalf of a carried party and the timing and amount are uncertain, a provision is recognised. Where the payment is a fixed monetary amount, a financial liability is recognised.

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are capitalised during the development phase of the project until such time as the assets are substantially ready for their intended use.

Depletion and depreciation

Oil and gas assets are depleted, on a field-by-field basis, using the unit of production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves. Changes in factors which affect unit of production calculations are dealt with prospectively. Depletion of oil and gas assets is taken through cost of sales.

Depreciation on other elements of property, plant and equipment is provided on a straight-line basis, and taken through general and administration expenses, at the following rates:

Office furniture and equipment	Five years
Fixtures and fittings	Ten years
Right-of-use assets*	Lease term

* excludes Kraken FPSO which is depleted using the unit of production method in accordance with the related oil and gas assets

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end. No depreciation is charged on assets under construction.

Impairment of tangible and intangible assets (excluding goodwill)
At each balance sheet date, the Group assesses assets or groups of assets, called cash generating units ('CGU's), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, using Level 3 inputs (based on IFRS 13 fair value hierarchy), have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax basis at management's estimate of a market participant WACC. See note 2 'Key estimates used in calculations'. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the Group income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the Group income statement.

	Oil and gas assets $'000	Office furniture, fixtures and fittings $'000	Right-of-use assets (note 24) $'000	Total $'000
Cost:				
At 1 January 2019	8,365,591	60,572	832,502	9,258,665
Additions	149,503	3,324	24,587	177,414
Change in decommissioning provision	40,097	–	–	40,097
Change in cost recovery provision	(5,895)	–	–	(5,895)
Reclass within asset class	(2,591)	(86)	–	(2,677)
Reclass from/(to) other assets and intangibles (see note 12)	1,064	(1,357)	–	(293)
At 1 January 2020	**8,547,769**	**62,453**	**857,089**	**9,467,311**
Additions	**78,926**	**1,910**	**2,812**	**83,648**
Change in decommissioning provision (see notes 23)	**10,200**	**–**	**–**	**10,200**
Disposals and termination of Tanjong Baram risk service contract(i)	**(84,724)**	**(143)**	**(1,412)**	**(86,279)**
At 31 December 2020	**8,552,171**	**64,220**	**858,489**	**9,474,880**
Accumulated depreciation, depletion and impairment:				
At 1 January 2019	4,724,614	42,378	81,233	4,848,225
Charge for the year	438,242	4,453	90,657	533,352
Impairment charge for the year	637,500	–	–	637,500
Reclass within asset class	(2,591)	(86)	–	(2,677)
Reclass from/(to) other assets and intangibles (see note 12)	159	(177)	–	(18)
At 1 January 2020	**5,797,924**	**46,568**	**171,890**	**6,016,382**
Charge for the year	**359,258**	**3,902**	**82,703**	**445,863**
Disposals and termination of Tanjong Baram risk service contract(i)	**(42,958)**	**(113)**	**(706)**	**(43,777)**
Impairment charge for the year	**314,335**	**–**	**108,160**	**422,495**
At 31 December 2020	**6,428,559**	**50,357**	**362,047**	**6,840,963**
Net carrying amount:				
At 31 December 2020	**2,123,612**	**13,863**	**496,442**	**2,633,917**
At 31 December 2019	2,749,845	15,885	685,199	3,450,929
At 1 January 2019	3,640,977	18,194	751,269	4,410,440

(i) For details on the termination of the Tanjong Baram risk service contract see note 5(d)

The net book value at 31 December 2020 includes nil (2019: $70.7 million) of pre-development assets and development assets under construction.

The amount of borrowing costs capitalised during the year ended 31 December 2020 was nil (2019: $1.4 million relating to the Dunlin bypass project).

10. Property, plant and equipment continued

Impairment testing of oil and gas assets

Impairments to the Group's producing oil and gas assets and reversals of impairments are set out in the table below:

	Impairment (charge)/reversal		Recoverable amount(i)	
	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000	**31 December 2020 $'000**	31 December 2019 $'000
North Sea	**(422,495)**	(637,500)	**1,086,348**	46,462
Malaysia	**–**	–	**–**	–
Net pre-tax impairment reversal/(charge)	**(422,495)**	(637,500)		

(i) Recoverable amount has been determined on a fair value less costs of disposal basis (see note 2 for further details of significant estimates and judgements made in relation to impairments). The amounts disclosed above are in respect of assets where an impairment (or reversal) has been recorded. Assets which did not have any impairment or reversal are excluded from the amounts disclosed

Impairment charges of $314.3 million (2019: $637.5 million) and $108.2 (2019: nil) were recognised in respect of oil and gas assets and right-of-use assets respectively within the North Sea reportable segment. The impairments are attributable primarily to producing assets and principally arose as a result of changes to the Group's oil price assumptions during the year.

The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. As stated in note 2, there is uncertainty due to climate change and international governmental intervention to reduce emissions and the likely impact this will have on gas and oil demand in respect of future prices. A sensitivity has been run on the oil price assumption, with a 10.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10.0% reduction in oil price would increase the net pre-tax impairment by approximately $266.0 million, with the additional impairment attributable to the fields in the North Sea.

A sensitivity has also been run on the discount rate assumption, with a 1.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 1.0% increase in discount rate would increase the net impairment by approximately $53.6 million, with the additional impairment attributable to the fields in the North Sea.

The oil price sensitivity analysis above does not, however, represent management's best estimate of any impairments that might be recognised as they do not fully incorporate consequential changes that may arise, such as reductions in costs and changes to business plans, phasing of development, levels of reserves and resources, and production volumes. As the extent of a price reduction increases, the more likely it is that costs would decrease across the industry. The oil price sensitivity analysis therefore does not reflect a linear relationship between price and value that can be extrapolated.

11. Goodwill

Accounting policy

Cost

Goodwill arising on a business combination is initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the gain is recognised in profit or loss.

Impairment of goodwill

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. In accordance with IAS 36 Impairment of Assets, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the CGU to which the goodwill relates should be assessed.

For the purposes of impairment testing, goodwill acquired is allocated to the CGU that is expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount of the CGU containing goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

A summary of goodwill is presented below:

	2020 $'000	2019 $'000
Cost and net carrying amount		
At 1 January	**134,400**	283,950
Impairment	**–**	(149,550)
At 31 December	**134,400**	134,400

The majority of the goodwill, $94.6 million, relates to the 75% acquisition of the Magnus oil field and associated interests. The remaining goodwill balance arose from the acquisition of Stratic and PEDL in 2010 and the Greater Kittiwake Area asset in 2014.

Impairment testing of goodwill
Goodwill, which has been acquired through business combinations, has been allocated to the UK North Sea segment CGU, and this is therefore the lowest level at which goodwill is reviewed. The UK North Sea is a combination of oil and gas assets, as detailed within property, plant and equipment (note 10).

The recoverable amounts of the CGU and fields have been determined on a fair value less costs of disposal basis. Discounted cash flow models comprising asset-by-asset life of field projections and risks specific to assets, using Level 3 inputs (based on IFRS 13 fair value hierarchy), have been used to determine the recoverable amounts. See 'Key estimates used in calculations' (note 2). The cash flows have been modelled on a post-tax basis at management's estimate of a market participant WACC. An impairment charge of nil was taken in 2020 (2019: $149.6 million) based on a fair value less costs to dispose valuation of the North Sea CGU, as described above.

Sensitivity to changes in assumptions
The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. A sensitivity has been run on the oil price assumption, with a 10.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10.0% reduction in oil price would result in a net impairment of $14 million (2019: full impairment of goodwill). A 12.6% reduction in oil price would fully impair goodwill (2019: 5.0%).

12. Intangible oil and gas assets
Accounting policy
Exploration and appraisal assets
Exploration and appraisal have indefinite useful lives and are accounted for using the successful efforts method of accounting. Pre-licence costs are expensed in the period in which they are incurred. Expenditure directly associated with exploration, evaluation or appraisal activities is initially capitalised as an intangible asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written off as exploration and evaluation expenses in the Group income statement. When exploration licences are relinquished without further development, any previous impairment loss is reversed and the carrying costs are written off through the Group income statement. When assets are declared part of a commercial development, related costs are transferred to property, plant and equipment. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the Group income statement.

During the year ended 31 December 2020, there was no impairment of historical exploration and appraisal expenditures (2019: $25.4 million).

	Cost $'000	Accumulated impairment $'000	Net carrying amount $'000
At 31 December 2018	165,586	(113,783)	51,803
Additions	3,241	–	3,241
Write-off of relinquished licences previously impaired	(583)	583	–
Unsuccessful exploration expenditure written off	–	(150)	(150)
Change in decommissioning provision (see note 23)	(2,218)	–	(2,218)
Impairment charge for the year	–	(25,398)	(25,398)
Reclass within asset class	8,645	(8,645)	–
Reclass from/(to) tangible fixed assets (see note 10)	293	(18)	275
At 31 December 2019	**174,964**	**(147,411)**	**27,553**
Write-off of relinquished licences previously impaired	**(12,645)**	**12,645**	**–**
Other	**(7)**	**–**	**(7)**
At 31 December 2020	**162,312**	**(134,766)**	**27,546**

13. Inventories

Accounting policy

Inventories of consumable well supplies and inventories of hydrocarbons are stated at the lower of cost and NRV, cost being determined on an average cost basis.

	2020 $'000	2019 $'000
Hydrocarbon inventories	**20,509**	17,216
Well supplies	**39,275**	61,428
	59,784	78,644

During 2020, inventories of $21.6 million (2019: $20.6 million) were recognised within cost of sales in the Group income statement.

The inventory valuation at 31 December 2020 is stated net of a provision of $56.7 million (2019: $31.8 million) to write down well supplies to their estimated net realisable value. The net charge to the income statement in the year in respect of well supplies provisions, primarily associated with decommissioned assets, was $24.9 million (2019: $14.6 million).

14. Cash and cash equivalents

	2020 $'000	2019 $'000
Available cash		
Cash at bank	**113,185**	137,365
Short-term deposits	**–**	6,849
Total available cash	**113,185**	144,214
Ring-fenced cash		
Joint venture accounts	**74,447**	32,365
Operational accounts	**33,523**	41,620
Total ring-fenced cash	**107,970**	73,985
Total cash at bank and in hand	**221,155**	218,199
Restricted cash – Cash subject to currency controls or other legal restrictions		
Cash held in escrow	**1,675**	1,611
Cash collateral	**–**	646
Total restricted cash – Cash subject to currency controls or other legal restrictions	**1,675**	2,257
Total cash and cash equivalents	**222,830**	220,456

The carrying value of the Group's cash and cash equivalents is considered to be a reasonable approximation to their fair value due to their short-term maturities. Ring-fenced cash includes joint venture accounts and cash held in operational accounts, as detailed below.

Short-term deposits

At 31 December 2020, nil (2019: $6.8 million) was placed on short-term deposit in order to cash collateralise the Group's letter of credit.

Joint venture accounts

Joint venture accounts include the cash called for the operations of the relevant asset, from both EnQuest and partners, based on equity share.

Operational accounts

Operational accounts include cash balances that are available for the operating, investing and financing activities of the following specific assets. This cash includes:

- $17.4 million Sculptor Capital working capital for use only for the activities of the ring-fenced 15% interest in the Kraken oil field (see note 18);
- Nil Magnus asset working capital for use only for activities of Magnus and maintained for the repayment mechanism with BP for the contingent consideration (see note 22); and
- $16.2 million SVT working capital for use only with the activities of SVT (see note 18).

Restricted cash

Included within the cash balance at 31 December 2020 is restricted cash of $1.7 million (2019: $2.3 million). The restricted cash balance is stated net of a provision of $2.5 million (2019: $2.5 million) which relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources.

15. Financial instruments and fair value measurement

Accounting policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are offset and the net amount is reported in the Group balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets

Financial assets are classified, at initial recognition, as amortised cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL'). The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Group's business model for managing them. The Group does not currently hold any financial assets at FVOCI, i.e. debt financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial assets at amortised cost

Trade receivables, other receivables and joint operation receivables are measured initially at fair value and subsequently recorded at amortised cost, using the effective interest rate ('EIR') method, and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired and EIR amortisation is included within finance costs.

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Prepayments, which are not financial assets, are measured at historical cost.

Impairment of financial assets

The Group recognises a provision for expected credit loss ('ECL'), where material, for all financial assets held at the balance sheet date. ECLs are based on the difference between the contractual cash flows due to the Group, and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating) and is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are joint venture partners and there are no indications of change in risk. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Financial liabilities

Financial liabilities are classified, at initial recognition, as amortised cost or at fair value through profit or loss.

Financial liabilities are derecognised when they are extinguished, discharged, cancelled or they expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Group income statement.

Financial liabilities at amortised cost

Loans and borrowings, trade payables and other creditors are measured initially at fair value net of directly attributable transaction costs and subsequently recorded at amortised cost, using the EIR method. Loans and borrowings are interest bearing. Gains and losses are recognised in profit or loss when the liability is derecognised and EIR amortisation is included within finance costs.

15. Financial instruments and fair value measurement continued

Financial instruments at fair value through profit or loss

The Group holds derivative financial instruments classified as held for trading, not designated as effective hedging instruments. The derivative financial instruments include forward currency contracts and commodity contracts, to address the respective risks, see note 27. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Financial instruments at FVPL are carried in the Group balance sheet at fair value with net changes in fair value recognised in the Group income statement. Unrealised mark-to-market changes in the remeasurement of open derivative contracts at each period end is recognised within remeasurements, with the recycling of realised amounts from remeasurements into Business performance income when a derivative instrument matures. Option premium received or paid for commodity derivatives are recognised in remeasurements.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVPL. Financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group also holds contingent consideration (see note 22) and a listed equity investment (see note 19). The movements of both are recognised within remeasurements in the Group income statement.

Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

31 December 2020	**Notes**	**Total $'000**	**Quoted prices in active markets (Level 1) $'000**	**Significant observable inputs (Level 2) $'000**	**Significant unobservable inputs (Level 3) $'000**
Financial assets measured at fair value:					
Other financial assets at FVPL					
Quoted equity shares		**7**	**7**	**–**	**–**
Liabilities measured at fair value:					
Derivative financial liabilities at FVPL					
Oil commodity derivative contracts	19	**2,007**	**–**	**2,007**	**–**
Other financial liabilities measured at FVPL					
Contingent consideration	22	**522,261**	**–**	**–**	**522,261**
Liabilities measured at amortised cost for which fair values are disclosed below:					
Interest-bearing loans and borrowings	18	**454,209**	**–**	**–**	**454,209**
Obligations under leases	24	**647,846**	**–**	**–**	**647,846**
Retail bond	18	**225,943**	**225,943**	**–**	**–**
High yield bond	18	**537,602**	**537,602**	**–**	**–**

31 December 2019	Notes	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Financial assets measured at fair value:					
Derivative financial assets at FVPL					
Oil commodity derivative contracts	19	288	–	288	–
Foreign currency derivative contracts	19	1,932	–	1,932	–
Other financial assets at FVPL					
Quoted equity shares		11	11	–	–
Liabilities measured at fair value:					
Derivative financial liabilities at FVPL					
Oil commodity derivative contracts	19	11,073	–	11,073	–
Other financial liabilities measured at FVPL					
Contingent consideration	22	657,261	–	–	657,261
Liabilities measured at amortised cost for which fair values are disclosed below:					
Interest-bearing loans and borrowings	18	661,638	–	–	661,638
Obligations under leases	24	716,166	–	–	716,166
Retail bond	18	195,948	195,948	–	–
High yield bond	18	655,462	655,462	–	–

Fair value hierarchy
All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly (i.e. as prices) or indirectly (i.e. derived from prices) observable;
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Derivative financial instruments are valued by counterparties, with the valuations reviewed internally and corroborated with readily available market data (Level 2). Contingent consideration is measured at FVPL using the Level 3 valuation processes disclosed in note 22. There have been no transfers between Level 1 and Level 2 during the period (2019: no transfers).

For the financial liabilities measured at amortised costs but for which fair value disclosures are required, the fair value of the bonds classified as Level 1 was derived from quoted prices for that financial instrument. Both interest-bearing loans and borrowings and obligations under finance leases were calculated using the discounted cash flow method to capture the present value (Level 3).

16. Trade and other receivables

	2020 $'000	2019 $'000
Current		
Trade receivables	**24,604**	117,149
Joint venture receivables	**53,121**	119,519
Under-lift position	**15,690**	17,651
VAT receivable	**10,307**	6,887
Other receivables	**1,441**	3,374
	105,163	264,580
Prepayments and accrued income	**13,552**	14,922
	118,715	279,502

The carrying value of the Group's trade, joint venture and other receivables as stated above are considered to be a reasonable approximation to their fair value largely due to their short-term maturities. Under-lift is valued at the lower of cost or NRV at the prevailing balance sheet date (note 5(b)).

Trade receivables are non-interest-bearing and are generally on 15 to 30 day terms. Joint venture receivables relate to amounts billable to, or recoverable from, joint venture partners. Receivables are reported net of any ECL with no losses recognised as at 31 December 2020 or 2019. The Group's ECL estimates were not significantly impacted by Brexit or COVID-19 during 2020.

17. Trade and other payables

	2020 $'000	2019 $'000
Current		
Trade payables	**41,090**	92,238
Accrued expenses	**179,590**	258,539
Over-lift position	**12,732**	46,201
Joint venture creditors	**16,647**	1,788
Other payables	**5,096**	21,089
	255,155	419,855
Classified as:		
Current	**255,155**	419,855
Non-current	**–**	–
	255,155	419,855

The carrying value of the Group's trade and other payables as stated above is considered to be a reasonable approximation to their fair value largely due to the short-term maturities. Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in Sterling. Trade payables are normally non-interest-bearing and settled on terms of between 10 and 30 days.

Accrued expenses include accruals for capital and operating expenditure in relation to the oil and gas assets and interest accruals.

18. Loans and borrowings

	2020 $'000	2019 $'000
Borrowings	**452,284**	659,013
Bonds	**1,045,041**	966,231
	1,497,325	1,625,244

(a) Borrowings
The Group's borrowings are carried at amortised cost as follows:

	2020			2019		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
Credit facility	**377,270**	**–**	**377,270**	475,097	–	475,097
Sculptor Capital facility	**67,701**	**(1,925)**	**65,776**	122,912	(2,625)	120,287
SVT working capital facility	**9,238**	**–**	**9,238**	31,899	–	31,899
Tanjong Baram project financing facility	**–**	**–**	**–**	31,730	–	31,730
Total borrowings	**454,209**	**(1,925)**	**452,284**	661,638	(2,625)	659,013
Due within one year			**414,430**			165,589
Due after more than one year			**37,854**			493,424
Total borrowings			**452,284**			659,013

See liquidity risk – note 27 for the timing of cash outflows relating to loans and borrowings

Credit facility
On 21 November 2016, the Group completed a loan restructuring and entered into an amended and restated credit agreement, which included the following terms:
- Commitments split into a term facility of $1.125 billion and a revolving facility of $75 million (together the 'credit facility');
- Maturity date of October 2021;
- Amortisation payable from 1 April 2018, the first scheduled amortisation date;
- Borrowings subject to mandatory repayment out of excess cash flow (excluding amounts required for approved capital expenditure), assessed on a six-monthly basis;
- Borrowings up to $890.7 million subject to interest at USD LIBOR plus a margin of 4.75%, paid in cash;
- Borrowings in excess of $890.7 million subject to interest at USD LIBOR plus a margin of 5.25%, paid in cash, with a further 3.75% interest accrued and added to the payment in kind ('PIK') amount at maturity of each loan's maturity period; and
- PIK amount repayable at maturity and subject to 9.0% interest, which is capitalised and added to the PIK amount on each 30 June and 31 December.

At 31 December 2020, the carrying amount of the credit facility on the balance sheet was $377.8 million, comprising the loan principal drawn down of $360.0 million, $17.3 million of interest capitalised to the PIK amount and $0.5 million accrued interest (note 17) (2019: carrying amount $477.4 million, principal drawn down $460.0 million, PIK $15.8 million and accrued interest $1.6 million).

At 31 December 2020, after allowing for letter of credit utilisation of $28.8 million, $46.2 million remained available for drawdown under the credit facility (2019: $6.8 million and $68.2 million, respectively).

Sculptor Capital facility
On 24 September 2018, the Group entered into a $175.0 million financing facility with Sculptor Capital Management Inc. The facility was drawn down in full and is repayable in five years from initial availability of the facility. Interest accrues at 6.3% annual effective rate plus one-month USD LIBOR. The financing is ring-fenced on a 15% interest in the Kraken oil field and will be repaid out of the cash flows associated with the interest over a maximum of five years.

SVT working capital facility
On 1 December 2020, EnQuest NNS Limited extended, for a further three years, the £42.0 million revolving loan facility with a joint operator partner to fund the short-term working capital cash requirements on the acquisition of SVT and associated interests. The facility is able to be drawn down against, in instalments, and accrues interest at 1.0% per annum plus GBP LIBOR.

Tanjong Baram project financing facility
On 25 October 2017, the Group entered into a $34.6 million financing facility in Malaysia with Castleton Commodities Merchant Asia Co. Pte Ltd. In June 2020, EnQuest made an early voluntary repayment of the entire $31.7 million of the Tanjong Baram project finance facility.

Trade Creditor Facility
In April 2020, the Group entered into a $15.0 million facility with a supplier, in relation to the provision of a drilling contract. Any amounts drawn down under the facility, along with associated accrued interest at 4%, would be repayable in two instalments in 2021. No amounts were drawn as at 31 December 2020.

(b) Bonds

The Group's bonds are carried at amortised cost as follows:

	2020			2019		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
High yield bond	799,194	(2,666)	796,528	746,056	(4,483)	741,573
Retail bond	249,161	(648)	248,513	225,747	(1,089)	224,658
Total bonds due after more than one year	1,048,355	(3,314)	1,045,041	971,803	(5,572)	966,231

High yield bond

In April 2014, the Group issued a $650.0 million high yield bond. On 21 November 2016, the high yield bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new high yield notes continue to accrue a fixed coupon of 7.0% payable semi-annually in arrears. The interest is only payable in cash if the 'Cash Payment Condition' is satisfied, being the average of the Daily Brent Oil Prices during the period of six calendar months immediately preceding the 'Cash Payment Condition Determination Date' is equal to or above $65/bbl. The 'Cash Payment Condition Determination Date' is the date falling one calendar month prior to the relevant interest payment date. If the 'Cash Payment Condition' is not satisfied, interest will not be paid in cash but instead will be capitalised and satisfied through the issue of additional high yield notes ('Additional HY Notes'). $27.5 million of accrued, unpaid interest as at the restructuring date was capitalised and added to the principal amount of the new high yield notes issued pursuant to the scheme.

During the year the maturity date of the new high yield notes was automatically extended to 15 October 2023 as the credit facility had not been repaid or refinanced in full prior to 15 October 2020.

The total carrying value of the bond as at 31 December 2020 is $796.5 million (2019: $741.6 million). This includes bond principal of $799.2 million (2019: $746.1 million) less unamortised fees of $2.7 million (2019: $4.5 million). The high yield bond does not include accrued interest of $11.8 million (2019: $11 million) and liability for the IFRS 9 Financial Instruments loss on modification of $4.6 million (2019: $2.2 million), which are reported within trade and other payables. The fair value of the high yield bond is disclosed in note 15.

Retail bond

In 2013, the Group issued a £155.0 million retail bond. On 21 November 2016, the retail bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new retail notes continue to accrue a fixed coupon of 7.0% payable semi-annually in arrears. The interest is only payable in cash if the 'Cash Payment Condition' is satisfied, being the average of the Daily Brent Oil Prices during the period of six calendar months immediately preceding the 'Cash Payment Condition Determination Date' is equal to or above $65/bbl. The 'Cash Payment Condition Determination Date' is the date falling one calendar month prior to the relevant interest payment date. If the 'Cash Payment Condition' is not satisfied, interest will not be paid in cash but instead will be capitalised and satisfied through the issue of additional retail notes ('Additional Retail Notes').

During the year the maturity date of the new high yield notes was automatically extended to 15 October 2023 as the credit facility had not been repaid or refinanced in full prior to 15 October 2020.

The total carrying value of the bond as at 31 December 2020 is $248.5 million (2019: $224.7 million). This includes bond principal of $249.2 million (2019: $225.7 million) less unamortised fees of $0.6 million (2019: $1.1 million). The retail yield bond does not include accrued interest of $6.3 million (2019: $6.0 million) and liability for the IFRS 9 Financial Instruments loss on modification of $11.9 million (2019: $10.5 million), which are reported within trade and other payables. The fair value of the retail bond is disclosed in note 15.

19. Other financial assets and financial liabilities

(a) Summary as at year end

	2020		2019	
	Assets $'000	Liabilities $'000	Assets $'000	Liabilities $'000
Fair value through profit or loss:				
Derivative commodity contracts	–	2,007	288	11,073
Derivative foreign exchange contracts	–	–	1,932	–
Amortised cost:				
Other receivables	–	–	6,863	–
Total current	–	2,007	9,083	11,073
Fair value through profit or loss:				
Quoted equity shares	7	–	11	–
Total non-current	7	–	11	–

19. Other financial assets and financial liabilities continued

(b) Income statement impact

The income/(expense) recognised for derivatives are as follows:

Year ended 31 December 2020	Revenue and other operating income Realised $'000	Revenue and other operating income Unrealised $'000	Cost of sales Realised $'000	Cost of sales Unrealised $'000
Commodity options	**24,659**	**(136)**	**–**	**–**
Commodity swaps	**(36,912)**	**8,941**	**–**	**–**
Commodity futures	**6,194**	**(27)**	**–**	**–**
Foreign exchange contracts	**–**	**–**	**572**	**(1,932)**
	(6,059)	**8,778**	**572**	**(1,932)**

Year ended 31 December 2019	Revenue and other operating income Realised $'000	Revenue and other operating income Unrealised $'000	Cost of sales Realised $'000	Cost of sales Unrealised $'000
Commodity options	10,517	(55,513)	–	–
Commodity swaps	19,813	(10,021)	–	–
Commodity futures	(4,467)	159	–	–
Commodity collar on prepayment transaction	(1,107)	–	–	–
Foreign exchange contracts	–	–	(2,713)	1,684
Carbon forwards	–	–	1,006	(2,062)
	24,756	(65,375)	(1,707)	(378)

(c) Commodity contracts

The Group uses derivative financial instruments to manage its exposure to the oil price, including put and call options, swap contracts and futures.

For the year ended 31 December 2020, gains totalling $2.7 million (2019: losses of $40.6 million) were recognised in respect of commodity contracts designated as FVPL. This included losses totalling $6.1 million (2019: gains of $24.8 million) realised on contracts that matured during the year, and mark-to-market unrealised gains totalling $8.8 million (2019: losses of $65.4 million). Of the realised amounts recognised during the year, a gain of $6.2 million (2019: gain of $4.9 million) was realised in Business performance revenue in respect of the premium income received on sale of these options.

The mark-to-market value of the Group's open contracts as at 31 December 2020 was a liability of $2.0 million (2019: liability of $10.8 million).

(d) Foreign currency contracts

The Group enters into a variety of foreign currency contracts, primarily in relation to Sterling. During the year ended 31 December 2020, losses totalling $1.4 million (2019: losses of $1.0 million) were recognised in the income statement. This included realised gains totalling $0.6 million (2019: loss of $2.7 million) on contracts that matured in the year.

The mark-to-market value of the Group's open contracts as at 31 December 2020 was nil (2019: asset of $1.9 million).

(e) Other receivables

	2020 $'000	2019 $'000
At 1 January	**6,874**	15,506
Change in fair value	**(4)**	(20)
Utilised during the year	**(7,138)**	(9,517)
Unwinding of discount	**275**	905
At 31 December	**7**	6,874
Current	**–**	6,863
Non-current	**7**	11
	7	6,874

Other receivables

Comprised of:	2020 $'000	2019 $'000
BUMI receivable	–	6,863
Other	7	11
Total	**7**	6,874

In August 2016, EnQuest agreed with Armada Kraken PTE Ltd ('BUMI') that BUMI would refund $65 million (EnQuest's share being $45.8 million) of a $100.0 million lease prepayment made in 2014 for the FPSO for the Kraken field. This refund is receivable from 2018 onwards. A total of $7.1 million was collected during the period, with the refund now fully settled.

20. Share capital and premium

Accounting policy

Share capital and share premium

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of registered share capital of the parent company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

Merger reserve

Merger reserve represents the difference between the market value of shares issued to effect business combinations less the nominal value of shares issued. The merger reserve in the Group financial statements also includes the consolidation adjustments that arise under the application of the pooling of interest method. During the year the merger reserve was released to retained earnings as the assets which gave rise to its original recognition are now fully written down.

Retained earnings

Retained earnings contain the accumulated profits/(losses) of the Group.

Share-based payments reserve

Equity-settled share-based payment transactions are measured at the fair value of the services received, and the corresponding increase in equity is recorded. EnQuest PLC shares held by the Group in the Employee Benefit Trust are recognised at cost and are deducted from the share-based payments reserve. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves. No gain or loss is recognised in the Group income statement on the purchase, sale, issue or cancellation of equity shares.

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2020	1,695,801,955	118,271	227,149	345,420
At 31 December 2020	**1,695,801,955**	**118,271**	**227,149**	**345,420**

At 31 December 2020, there were 46,492,546 shares held by the Employee Benefit Trust (2018: 43,232,936). 9,562,007 shares were purchased across 2020 to the Employee Benefit Trust with the remaining movement in the year due to shares used to satisfy awards made under the Company's share-based incentive schemes.

21. Share-based payment plans

Accounting policy

Eligible employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares of EnQuest PLC.

The Directors of the Company have approved four share schemes for the benefit of Directors and employees, being a Deferred Bonus Share Plan, a Restricted Share Plan, a Performance Share Plan and a Sharesave Plan.

The cost of these equity-settled transactions is measured by reference to the fair value at the date on which they are granted. The fair value of awards is calculated in reference to the scheme rules at the market value, being the average middle market quotation of a share for the three immediately preceding dealing days as derived from the Daily Official List of the London Stock Exchange, provided such dealing days do not fall within any period when dealings in shares are prohibited because of any dealing restriction. The fair values of awards granted to employees during the year are based on the market value on the date of grant, or date of invitation in respect to the Sharesave Plan.

The cost of equity-settled transactions is recognised over the vesting period in which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The Group income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

In valuing the transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of EnQuest PLC (market conditions) or 'non-vesting' conditions, if applicable. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not previously recognised for the award at that date is recognised in the Group income statement.

The share-based payment expense recognised for each scheme was as follows:

	2020 $'000	2019 $'000
Deferred Bonus Share Plan	**95**	303
Restricted Share Plan	**221**	580
Performance Share Plan	**3,277**	3,988
Sharesave Plan	**(240)**	858
Executive Director bonus awards	**48**	159
	3,401	5,888

The following disclosure and tables show the number of shares potentially issuable under equity-settled employee share awards, including the number of options outstanding and those options which been exercised and are exercisable at the end of each year.

Deferred Bonus Share Plan ('DBSP')

Eligible employees are invited to participate in the DBSP scheme. Participants may be invited to elect or, in some cases, be required, to receive a proportion of any bonus in Ordinary shares of EnQuest (invested awards). Following such award, EnQuest will generally grant the participant an additional award over a number of shares bearing a specified ratio to the number of invested shares (matching shares). The awards granted will vest 33% on the first anniversary of the date of grant, a further 33% after year two and the final 34% on the third anniversary of the date of grant. Awards, both invested and matching, are forfeited if the employee leaves the Group before the awards vest.

The fair values of DBSP awards granted to employees during the year, based on the defined market value on the date of grant, are set out below:

	2020	2019
Weighted average fair value per share	**31p**	36p

The following shows the movement in the number of share awards held under the DBSP scheme:

	2020 Number	2019 Number
Outstanding at 1 January	**925,510**	2,147,103
Granted during the year	**–**	–
Exercised during the year	**(705,683)**	(1,127,850)
Forfeited during the year	**(58,989)**	(93,743)
Outstanding at 31 December	**160,838**	925,510
Exercisable at 31 December	**–**	–

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 0.3 years (2019: 0.6 years).

Restricted Share Plan ('RSP')
Under the RSP scheme, employees are granted shares in EnQuest over a discretionary vesting period at the discretion of the Remuneration Committee of the Board of Directors of EnQuest, which may or may not be subject to the satisfaction of performance conditions. Awards made under the RSP will vest over periods between one and four years. At present, there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future.

The fair values of RSP awards granted to employees during the year, based on the defined market value on the date of grant, are set out below:

	2020	2019
Weighted average fair value per share	**24p**	31p

The following table shows the movement in the number of share awards held under the RSP scheme:

	2020 Number	2019 Number
Outstanding at 1 January	**4,848,299**	12,672,753
Granted during the year	**399,089**	45,303
Exercised during the year	**(2,229,196)**	(7,826,383)
Forfeited during the year	**(68,552)**	(43,374)
Outstanding at 31 December	**2,949,640**	4,848,299
Exercisable at 31 December	**1,821,724**	2,822,934

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 2.1 years (2019: 2.6 years).

Performance Share Plan ('PSP')
PSP vesting is subject to performance conditions. PSP share awards granted before 2020 had four sets of performance conditions associated with them: 30% of the award relates to Total Shareholder Return ('TSR') against a number of comparator group oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; 30% relates to reduction in net debt; 30% relates to production growth; and 10% relates to 2P reserve additions over the three-year performance period. Awards will vest on the third anniversary.

For 2020 the PSP share awards granted during the year have only one performance condition, 100% of the award relates to Total Shareholder Return ('TSR') against a number of comparator group oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX. Awards will vest on the third anniversary.

The fair values of PSP awards granted to employees during the year, based on the defined market value on the date of grant and which allow for the effect of the TSR condition which is a market-based performance condition, are set out below:

	2020	2019
Weighted average fair value per share	**18p**	27p

21. Share-based payment plans continued

The following table shows the movement in the number of share awards held under the PSP scheme:

	2020 Number	2019 Number
Outstanding at 1 January	**69,637,698**	77,898,199
Granted during the year	**52,520,457**	33,000,603
Exercised during the year	**(3,353,253)**	(19,644,786)
Forfeited during the year	**(13,919,026)**	(21,616,318)
Outstanding at 31 December	**104,885,876**	69,637,698
Exercisable at 31 December	**8,248,209**	3,852,953

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 5.8 years (2019: 6.3 years).

Sharesave Plan

The Group operates an approved savings-related share option scheme. The plan is based on eligible employees being granted options and their agreement to opening a Sharesave account with a nominated savings carrier and to save over a specified period, either three or five years. The right to exercise the option is at the employee's discretion at the end of the period previously chosen, for a period of six months.

The fair values of Sharesave awards granted to employees during the year, based on the defined market value on the date the invitation for the scheme opens, are shown below:

	2020	2019
Weighted average fair value per share	**12p**	22p

The following shows the movement in the number of share options held under the Sharesave Plan:

	2020 Number	2019 Number
Outstanding at 1 January	**42,589,522**	35,747,677
Granted during the year	**34,719,941**	39,101,971
Exercised during the year	**(452,545)**	(6,385,608)
Forfeited during the year	**(34,473,264)**	(25,874,518)
Outstanding at 31 December	**42,383,654**	42,589,522
Exercisable at 31 December	**449,912**	2,879,900

The weighted average contractual life for the share options outstanding as at 31 December 2020 was 2.6 years (2019: 2.8 years).

Executive Director bonus awards

As detailed in the Directors' Remuneration Report, the remuneration of the Executive Directors includes the participation in an annual bonus plan. Any bonus amount in excess of 100% of salary will be deferred into EnQuest shares for two years, subject to continued employment.

The fair value of the Executive Director bonus awards granted during the year, based on the defined market value on the date of grant, are set out below:

	2020	2019
Weighted average fair value per share	**15p**	28p

The following table shows the movement in the number of share awards held under the Executive Director bonus plan:

	2020 Number	2019 Number
Outstanding at 1 January	**1,963,454**	3,159,786
Granted during the year	**303,862**	138,483
Exercised during the year	**–**	(1,334,815)
Outstanding at 31 December	**2,267,316**	1,963,454
Exercisable at 31 December	**1,824,971**	1,526,678

The weighted average contractual life for the share awards outstanding as at 31 December 2020 was 1.3 years (2019: 0.6 years).

22. Contingent consideration

Accounting policy

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

	Magnus 75% $'000	Magnus decommissioning-linked liability $'000	Total $'000
At 31 December 2019	641,400	15,861	657,261
Change in fair value (see note 5(d))	(137,356)	(893)	(138,249)
Unwinding of discount (see note 6)	64,140	1,586	65,726
Interest on vendor loan (see note 6)	11,533	–	11,533
Utilisation	(72,056)	(1,954)	(74,010)
At 31 December 2020	507,661	14,600	522,261
Classified as:			
Current	73,676	201	73,877
Non-current	433,984	14,400	448,384
	507,660	14,601	522,261

75% Magnus acquisition contingent consideration

On 1 December 2018, EnQuest completed the acquisition of the additional 75% interest in the Magnus oil field ('Magnus') and associated interests (collectively the 'Transaction assets') which was part funded through a vendor loan and profit share arrangement with BP. This acquisition followed on from the acquisition of initial interests completed in December 2017.

The consideration for the acquisition was $300.0 million, consisting of $100.0 million cash contribution, paid from the funds received through the rights issue undertaken in October 2018, and $200.0 million deferred consideration financed by BP. The deferred consideration, which is repayable solely out of cash flows which are in excess of operating cash flows from Magnus, is secured over the interests in the Transaction assets and accrues interest at a rate of 7.5% per annum on the deferred consideration. The consideration also included a contingent profit-sharing arrangement whereby EnQuest and BP share the net cash flow generated by the 75% interest on a 50:50 basis, subject to a cap of $1 billion received by BP. Together, the deferred consideration and contingent profit-sharing arrangement are known as contingent consideration.

The contingent consideration is a financial liability classified as measured at fair value through profit or loss. The fair value of contingent consideration has been determined by calculating the present value of the future expected cash flows expected to be paid and is considered a level 3 valuation under the fair value hierarchy. Future cash flows are estimated based on inputs including future oil prices, production volumes, and operating costs. The discount rate assumption and other inputs are detailed in note 2. The contingent consideration was fair valued at 31 December 2020, which resulted in a decrease in fair value of $137.4 million (2019: increase $13.5 million), reflecting the change in oil price assumptions. The fair value accounting effect and finance costs of $77.3 million (2019: $55.0 million) on the contingent consideration were recognised through remeasurements and exceptional items in the Group income statement. The contingent profit sharing arrangement cap of $1 billion was not met in 2020 in the present value calculations (2019: cap was met). Within the statement of cash flows the profit share element of the repayment, $41.1 million (2019: $21.6 million) is disclosed separately under investing activities; the repayment of the vendor loan, $20.7 million (2019: $17.9 million) is disclosed under financing activities; and the interest paid on the vendor loan, $10.3 million (2019: $14.2 million) is included within Interest paid under financing activities. At 31 December 2020, the contingent consideration was $507.7 million (31 December 2019: $641.4 million).

Management has considered alternative scenarios to assess the valuation of the contingent consideration including, but not limited to, the key accounting estimate relating to the oil price and the interrelationship with production and the profit share arrangement. As detailed in key accounting estimates, a reduction or increase in the price assumptions of 10% are considered to be reasonably possible changes, resulting in a reduction of $91.7 million or an increase of $91.7 million to the contingent consideration, respectively (2019: reduction of $97.8 million and increase of $54.3 million, respectively). The change in value represents a change in timing of cash flows, with the contingent profit sharing arrangement cap of $1 billion not met in either sensitivity.

22. Contingent consideration continued

The payment of contingent consideration is limited to cash flows generated from Magnus. Therefore, no contingent consideration is payable if insufficient cash flows are generated over and above the requirements to operate the asset. By reference to the conditions existing at 31 December 2020, the maturity analysis of the loan is disclosed in Risk management and financial instruments – liquidity risk (note 27).

Magnus decommissioning-linked contingent consideration

As part of the Magnus and associated interests acquisition, BP retained the decommissioning liability in respect of the existing wells and infrastructure and EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Magnus. At 31 December 2020, the amount due to BP calculated on an after-tax basis by reference to 30% of BP's decommissioning costs on Magnus was $14.6 million (2019: $15.9 million).

23. Provisions

Accounting policy

Decommissioning

Provision for future decommissioning costs is made in full when the Group has an obligation: to dismantle and remove a facility or an item of plant; to restore the site on which it is located; and when a reasonable estimate of that liability can be made. The Group's provision primarily relates to the future decommissioning of production facilities and pipelines.

A decommissioning asset and liability are recognised, within property plant and equipment and provisions respectively, at the present value of the estimated future decommissioning costs. The decommissioning asset is amortised over the life of the underlying asset on a unit of production basis over proven and probable reserves, included within depletion in the Group income statement. Any change in the present value of estimated future decommissioning costs is reflected as an adjustment to the provision and the oil and gas asset. The unwinding of the decommissioning liability is included under finance costs in the Group income statement.

These provisions have been created based on internal and third-party estimates. Assumptions based on the current economic environment have been made which management believe are 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 liabilities is likely to depend on the dates when the fields cease to be economically viable. This in turn depends on future oil prices, which are inherently uncertain. See 'Key sources of estimation uncertainty' – Decommissioning provision in note 2.

Other

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

	Decommissioning provision $'000	Thistle decommissioning provision $'000	Other provisions $'000	Total $'000
At 31 December 2019	711,898	39,811	11,250	762,959
Additions during the year	7,462	–	9,137	16,599
Changes in estimates	85,937	11,998	–	97,935
Unwinding of discount	14,512	796	–	15,308
Utilisation	(41,605)	–	(11,250)	(52,855)
Foreign exchange	–	461	–	461
At 31 December 2020	778,204	53,066	9,137	840,407
Classified as:				
Current	68,805	21,012	9,137	98,954
Non-current	709,399	32,054	–	741,453
	778,204	53,066	9,137	840,407

Decommissioning provision

The Group's total provision represents the present value of decommissioning costs which are expected to be incurred up to 2048, assuming no further development of the Group's assets. At 31 December 2020, an estimated $329.2 million is expected to be utilised between one and five years (2019: $155.6 million), $145.1 million within six to ten years (2019: $339.8 million), and the remainder in later periods.

As described in the accounting policy above, the decommissioning provision estimates are highly dependent on future events. Sensitivities have been run on the discount rate assumption (see note 2), with a 0.5% change being considered to be a reasonable possible change, resulting in an approximate reduction and increase of $35.4 million and $38.4 million (2019: $34.7 million and $31.8 million), respectively.

The Group enters into surety bonds principally to provide security for its decommissioning obligations. The surety bond facilities which expired in December 2020 were renewed for 12 months, subject to ongoing compliance with the terms of the Group's borrowings. At 31 December 2020, the Group held surety bonds totalling $151.7 million (2019: $131.6 million).

Thistle decommissioning provision
In 2017, EnQuest had the option to receive $50.0 million from BP in exchange for undertaking the management of the physical decommissioning activities for Thistle and Deveron and making payments by reference to 7.5% of BP's share of decommissioning costs of Thistle and Deveron fields. The option was exercised in full during 2018 and the liability recognised within provisions. At 31 December 2020, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Thistle and Deveron was $53.1 million (2019: $39.8 million). Unwinding of discount of $0.8 million is included within finance income for the year ended 31 December 2020 (2019: $0.9 million).

Other provisions
During 2019, the Group finalised and settled the historical breach of warranty claims with KUFPEC, the Group's field partner in respect of Alma/Galia. The settlement completed all outstanding claims and a provision of $22.5 million was recognised for the payments to be made to KUFPEC. A total of $6.9 million had been provided in 2019, resulting in the remaining $15.6 million being taken to the Group income statement through remeasurements and exceptional items. A total of $11.3 million was paid during 2020 (2019: $11.2 million) fully utilising the provision.

During 2020, a riser at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform detached resulting in a release of gas and a subsequent fire. At 31 December 2020 the Group has provided $5.9 million with respect to required repairs to remedy the damage caused. The Group expects to complete the repairs during 2021.

Other provisions also include redundancy provision of $1.2 million in relation to the transformation programme undertaken during 2020 and $1.5 million in relation to the payment of partners' share of pipeline oil stock following cessation of production at Heather.

24. Leases

Accounting policy

As a lessee
The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease, or, if that rate cannot be readily determined, the Group uses its incremental borrowing rate.

The incremental borrowing rate is the rate that the Group would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value. The incremental borrowing rate is determined based on a series of inputs including: the term, the risk-free rate based on government bond rates and a credit risk adjustment based on EnQuest bond yields.

Lease payments included in the measurement of the lease liability comprise:
- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently recorded at amortised cost, using the effective interest rate method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group did not make any such adjustments during the periods presented.

The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date. It also applies the low-value assets recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included within 'cost of sales' or 'general and administration expenses' in the Group income statement.

24. Leases continued

For leases within joint ventures, the Group assesses on a lease-by-lease basis the facts and circumstances. This relates mainly to leases of vessels. Where all parties to a joint operation jointly have the right to control the use of the identified asset and all parties have a legal obligation to make lease payments to the lessor, the Group's share of the right-of-use asset and its share of the lease liability will be recognised on the Group balance sheet. This may arise in cases where the lease is signed by all parties to the joint operation or the joint operation partners are named within the lease. However, in cases where EnQuest is the only party with the legal obligation to make lease payments to the lessor, the full lease liability and right-of-use asset will be recognised on the Group balance sheet. This may be the case if, for example, EnQuest, as operator of the joint operation, is the sole signatory to the lease. If the underlying asset is used for the performance of the joint operation agreement, EnQuest will recharge the associated costs in line with joint operating agreement.

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head-lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head-lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Right-of-use assets and lease liabilities

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets $'000	Lease liabilities $'000
As at 31 December 2018	–	708,950
Finance lease reclassification	690,742	–
IFRS 16 recognition adjustment	60,527	60,527
Additions in the period	24,587	24,587
Depreciation expense	(90,657)	–
Interest expense	–	55,686
Payments	–	(135,125)
Foreign exchange movements	–	1,541
As at 31 December 2019	**685,199**	**716,166**
Additions in the period (see note 10)	**2,812**	**2,812**
Depreciation expense (see note 10)	**(82,703)**	**–**
Impairment (see note 10)	**(108,160)**	**–**
Disposal	**(706)**	**(726)**
Interest expense	**–**	**50,851**
Payments	**–**	**(123,001)**
Foreign exchange movements	**–**	**1,744**
As at 31 December 2020	**496,442**	**647,846**
Current		**99,439**
Non-current		**548,407**
		647,846

The Group leases assets including the Kraken FPSO, property and oil and gas vessels, with a weighted average lease term of six years. The maturity analysis of lease liabilities are disclosed in note 27.

Amounts recognised in profit or loss

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Depreciation expense of right-of-use assets	**82,703**	90,657
Interest expense on lease liabilities	**50,851**	55,689
Rent expense – short-term leases	**12,736**	2,646
Rent expense – leases of low-value assets	**43**	28
Total amounts recognised in profit or loss	**146,333**	149,020

Amounts recognised in statement of cash flows

	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Total cash outflow for leases	**123,001**	135,125

Leases as lessor

The Group sub-leases part of Annan House, the Aberdeen office. The sub-lease is classified as an operating lease, as all the risks and rewards incidental to the ownership of the right-of-use asset are not all substantially transferred to the lessee. Rental income recognised by the Group during 2020 was $1.7 million (2019: $1.3 million).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	2020 $'000	2019 $'000
Less than one year	**2,211**	1,635
One to two years	**2,211**	1,762
Two to three years	**2,211**	1,762
Three to four years	**2,211**	1,762
Four to five years	**1,508**	1,762
More than five years	**8,497**	1,147
Total undiscounted lease payments	**18,849**	9,830

25. Commitments and contingencies

Capital commitments

At 31 December 2020, the Group had capital commitments amounting to nil (2019: $17.9 million).

Other commitments

In the normal course of business, the Group will obtain surety bonds, letters of credit and guarantees. At 31 December 2020, the Group held surety bonds totalling $151.7 million (2019: 131.6 million) to provide security for its decommissioning obligations. See note 23 for further details.

Contingencies

The Group becomes involved from time to time in various claims and lawsuits arising in the ordinary course of its business. The Company is not, nor has been during the past 12 months, involved in any governmental, legal or arbitration proceedings which, either individually or in the aggregate, have had, or are expected to have, a material adverse effect on the Company's and/or the Group balance sheet or profitability, nor, so far as the Company is aware, are any such proceedings pending or threatened.

26. Related party transactions

The Group financial statements include the financial statements of EnQuest PLC and its subsidiaries. A list of the Group's principal subsidiaries is contained in note 28 to these Group financial statements.

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management. With the exception of the transactions disclosed below, there have been no transactions with related parties who are not members of the Group during the year ended 31 December 2020 (2019: none).

Office sub-lease

During the year ended 31 December 2020, the Group recognised $0.1 million (2019: $0.1 million) of rental income in respect of an office sub-lease arrangement with Levendi Investment Management Limited, a company where 72% of the issued share capital is held by Amjad Bseisu.

Compensation of key management personnel

The following table details remuneration of key management personnel of the Group. Key management personnel comprise of Executive and Non-Executive Directors of the Company and the Executive Committee.

	2020 $'000	2019 $'000
Short-term employee benefits	**7,576**	7,584
Share-based payments	**107**	1,245
Post-employment pension benefits	**224**	199
	7,907	9,028

27. Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities comprise trade and other receivables, cash and short-term deposits, interest-bearing loans, borrowings and finance leases, derivative financial instruments and trade and other payables. The main purpose of the financial instruments is to manage short-term cash flow and raise finance for the Group's capital expenditure programme.

The Group's activities expose it to various financial risks particularly associated with fluctuations in oil price, foreign currency risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. Also presented below is a sensitivity analysis to indicate sensitivity to changes in market variables on the Group's financial instruments and to show the impact on profit and shareholders' equity, where applicable. The sensitivity has been prepared for periods ended 31 December 2020 and 2019, using the amounts of debt and other financial assets and liabilities held at those reporting dates.

Commodity price risk – oil prices

The Group is exposed to the impact of changes in Brent oil prices on its revenues and profits generated from sales of crude oil.

The Group's policy is to have the ability to hedge oil prices up to a maximum of 75% of the next 12 months' production on a rolling annual basis, up to 60% in the following 12-month period and 50% in the subsequent 12-month period.

Details of the commodity derivative contracts entered into during and open at the end of 2020 are disclosed in note 19. As of 31 December 2020, the Group held financial instruments (options and swaps) related to crude oil that covered 1.0 MMbbls of 2021 production. The instruments have an effective an average floor price of around $48.9/bbl in 2021. The Group utilises multiple benchmarks when hedging production to achieve optimal results for the Group. No derivatives were designated in hedging relationships at 31 December 2020.

The following table summarises the impact on the Group's pre-tax profit of a reasonably possible change in the Brent oil price, on the fair value of derivative financial instruments, with all other variables held constant. The impact in equity is the same as the impact on profit before tax.

	Pre-tax profit	
	+$10/bbl increase $'000	**-$10/bbl decrease $'000**
31 December 2020	**(8,020)**	**1,365**
31 December 2019	(22,894)	20,500

Foreign exchange risk
The Group is exposed to foreign exchange risk arising from movements in currency exchange rates. Such exposure arises from sales or purchases in currencies other than the Group's functional currency and the retail bond which is denominated in Sterling. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. Approximately 8% (2019: 6%) of the Group's sales and 86% (2019: 95%) of costs (including operating and capital expenditure and general and administration costs) are denominated in currencies other than the functional currency.

The Group also enters into foreign currency swap contracts from time to time to manage short-term exposures. The following tables summarise the Group's financial assets and liabilities exposure to foreign currency.

Year ended 31 December 2020	**GBP $'000**	**MYR $'000**	**Other $'000**	**Total $'000**
Total financial assets	**32,150**	**11,735**	**2,777**	**46,662**
Total financial liabilities	**519,060**	**23,931**	**869**	**543,860**

Year ended 31 December 2019	GBP $'000	MYR $'000	Other $'000	Total $'000
Total financial assets	136,158	28,421	4,195	168,774
Total financial liabilities	637,042	113,901	3,091	754,034

The following table summarises the sensitivity to a reasonably possible change in the US Dollar to Sterling foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date. The impact in equity is the same as the impact on profit before tax. The Group's exposure to foreign currency changes for all other currencies is not material:

	Pre-tax profit	
	+$10% rate increase $'000	**-$10% rate decrease $'000**
31 December 2020	**(46,183)**	**46,183**
31 December 2019	(47,158)	47,158

Credit risk
Credit risk is managed on a Group basis. Credit risk in financial instruments arises from cash and cash equivalents and derivative financial instruments where the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. For banks and financial institutions, only those rated with an A-/A3 credit rating or better are accepted. Cash balances can be invested in short-term bank deposits and AAA-rated liquidity funds, subject to Board-approved limits and with a view to minimising counterparty credit risks.

In addition, there are credit risks of commercial counterparties including exposures in respect of outstanding receivables. The Group trades only with recognised international oil and gas companies, commodity traders and shipping companies and at 31 December 2020 there were $2.6 million of trade receivables past due (2019: $2.4 million) and $2.5 million of joint venture receivables past due (2019: $0.1 million) but not impaired. Subsequent to year end, $4.4 million of these outstanding balances have been collected (2019: $2.4 million). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary. The impact of ECL is disclosed in note 16.

Ageing of past due but not impaired receivables	**2020 $'000**	2019 $'000
Less than 30 days	**2,974**	381
30–60 days	**1,335**	60
60–90 days	**164**	–
90–120 days	**271**	8
120+ days	**383**	2,056
	5,127	2,505

At 31 December 2020, the Group had three customers accounting for 77% of outstanding trade receivables (2019: four customers, 84%) and one joint venture partner accounting for 16% of outstanding joint venture receivables (2019: two joint venture partners, 26%).

27. Risk management and financial instruments continued

Liquidity risk

The Group monitors its risk of a shortage of funds by reviewing its cash flow requirements on a regular basis relative to its existing bank facilities and the maturity profile of its borrowings. Specifically, the Group's policy is to ensure that sufficient liquidity or committed facilities exist within the Group to meet its operational funding requirements and to ensure the Group can service its debt and adhere to its financial covenants. At 31 December 2020, $61.2 million (2019: $68.2million) was available for drawdown under the Group's credit facilities (see note 18).

The following tables detail the maturity profiles of the Group's non-derivative financial liabilities including projected interest thereon. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis and includes future interest payments.

The payment of contingent consideration is limited to cash flows generated from Magnus (see note 22). Therefore, no contingent consideration is payable if insufficient cash flows are generated over and above the requirements to operate the asset and there is no exposure to liquidity risk. By reference to the conditions existing at the reporting period end, the maturity analysis of the loan is disclosed below. All of the Groups liabilities are unsecured.

Year ended 31 December 2020	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Loans and borrowings	–	430,289	39,778	–	–	470,067
Bonds[(i)]	–	–	–	1,255,474	–	1,255,474
Contingent considerations	–	78,219	77,055	254,319	401,259	810,852
Obligations under finance leases (IFRS 16)	–	133,765	130,667	337,177	217,013	818,622
Trade and other payables	–	249,111	117	–	–	249,228
	–	891,384	247,617	1,846,970	618,272	3,604,243

Year ended 31 December 2019	On demand $'000	Up to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Loans and borrowings	–	228,991	527,419	4,121	–	760,531
Bonds[(i)]	–	67,545	67,545	1,035,022	–	1,170,112
Contingent considerations	–	114,152	89,607	266,563	621,929	1,092,251
Obligations under finance leases (IFRS 16)	–	152,306	132,294	350,492	281,915	917,007
Trade and other payables	–	326,035	–	–	46,763	372,798
	–	889,029	816,865	1,656,198	950,607	4,312,699

(i) Maturity analysis profile for the Group's bonds includes semi-annual coupon interest. This interest is only payable in cash if the average dated Brent oil price is equal to or greater than $65/bbl for the six months preceding one month before the coupon payment date (see note 18)

The following tables detail the Group's expected maturity of payables and receivables for its derivative financial instruments. The amounts in these tables are different from the balance sheet as the table is prepared on a contractual undiscounted cash flow basis. When the amount receivable or payable is not fixed, the amount disclosed has been determined by reference to a projected forward curve at the reporting date.

Year ended 31 December 2020	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'000
Commodity derivative contracts	3,108	2,007	–	–	–	5,115
	3,108	2,007	–	–	–	5,115

Year ended 31 December 2019	On demand $'000	Less than 3 months $'000	3 to 12 months $'000	1 to 2 years $'000	Over 2 years $'000	Total $'000
Commodity derivative contracts	1,849	6,398	4,387	–	–	12,634
Foreign exchange derivative contracts	–	(1,932)	–	–	–	(1,932)
	1,849	4,466	4,387	–	–	10,702

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as in the Group statement of changes in equity.

The primary objective of the Group's capital management is to optimise the return on investment, by managing its capital structure to achieve capital efficiency whilst also maintaining flexibility. The Group regularly monitors the capital requirements of the business over the short, medium and long term, in order to enable it to foresee when additional capital will be required.

The Group has approval from the Board to hedge foreign exchange risk on up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure. For specific contracted capex projects, up to 100% can be hedged. In addition, the Group's policy is to have the ability to hedge oil prices up to a maximum of 75% of the next 12 months' production on a rolling annual basis, up to 60% in the following 12-month period and 50% in the subsequent 12-month period. This is designed to reduce the risk of adverse movements in exchange rates and market prices eroding the return on the Group's projects and operations.

The Board regularly reassesses the existing dividend policy to ensure that shareholder value is maximised. Any future payment of dividends is expected to depend on the earnings and financial condition of the Company and such other factors as the Board considers appropriate.

The Group monitors capital using the gearing ratio and return on shareholders' equity as follows. Further information relating to the movement year-on-year is provided within the relevant notes and within the Financial review (pages 26 to 31).

	2020 $'000	2019 $'000
Loans, borrowings and bond(i) (A) (see note 18)	**1,502,564**	1,633,441
Cash and short-term deposits (see note 14)	**(222,830)**	(220,456)
Net debt (B)	**1,279,734**	1,412,985
Equity attributable to EnQuest PLC shareholders (C)	**(207,377)**	559,061
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**(768,539)**	(449,301)
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**(28,319)**	214,340
Gross gearing ratio (A/C)	**n/a**	2.9
Net gearing ratio (B/C)	**n/a**	2.5
Shareholders' return on investment (D/C)	**n/a**	n/a
Shareholders' return on investment excluding exceptionals (E/C)	**n/a**	38%

(i) Principal amounts drawn, excludes netting off of fees (see note 18)

28. Subsidiaries

At 31 December 2020, EnQuest PLC had investments in the following subsidiaries:

Name of company	Principal activity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group
EnQuest Britain Limited	Intermediate holding company and provision of Group manpower and contracting/procurement services	England	100%
EnQuest Heather Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Thistle Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
Stratic UK (Holdings) Limited[(i)]	Intermediate holding company	England	100%
Grove Energy Limited[1]	Intermediate holding company	Canada	100%
EnQuest ENS Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest UKCS Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Norge AS[(i)][2]	Exploration, extraction and production of hydrocarbons	Norway	100%
EnQuest Heather Leasing Limited[(i)]	Leasing	England	100%
EQ Petroleum Sabah Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Leasing Limited[(i)]	Dormant	England	100%
EnQuest Energy Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Production Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Global Limited	Intermediate holding company	England	100%
EnQuest NWO Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EQ Petroleum Production Malaysia Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
NSIP (GKA) Limited[3]	Construction, ownership and operation of an oil pipeline	Scotland	100%
EnQuest Global Services Limited[(i)][4]	Provision of Group manpower and contracting/procurement services for the international business	Jersey	100%
EnQuest Marketing and Trading Limited	Marketing and trading of crude oil	England	100%
NorthWestOctober Limited[(i)]	Dormant	England	100%
EnQuest UK Limited[(i)]	Dormant	England	100%
EnQuest Petroleum Developments Malaysia SDN. BHD[(i)][5]	Exploration, extraction and production of hydrocarbons	Malaysia	100%
EnQuest NNS Holdings Limited[(i)]	Intermediate holding company	England	100%
EnQuest NNS Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Advance Holdings Limited[(i)]	Intermediate holding company	England	100%
EnQuest Advance Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Forward Holdings Limited[(i)]	Intermediate holding company	England	100%
EnQuest Forward Limited[(i)]	Exploration, extraction and production of hydrocarbons	England	100%

(i) Held by subsidiary undertaking

The Group has three branches outside the UK (all held by subsidiary undertakings): EnQuest Global Services Limited (Dubai); EnQuest Petroleum Production Malaysia Limited (Malaysia); and EQ Petroleum Sabah Limited (Malaysia).

Registered office addresses:
1 Suite 2200, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9
2 Fabrikkveien 9, Stavanger, 4033, Norway
3 Annan House, Palmerston Road, Aberdeen, Scotland, AB11 5QP, United Kingdom
4 Ground Floor, Colomberie House, St Helier, JE4 0RX, Jersey
5 c/o TMF, 10th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee 50250 Kuala Lumpur, Malaysia

29. Cash flow information

Cash generated from operations

	Notes	Year ended 31 December 2020 $'000	Year ended 31 December 2019 $'000
Profit/(loss) before tax		**(565,975)**	(729,113)
Depreciation	5(c)	**7,616**	8,207
Depletion	5(b)	**438,247**	525,145
Exploration costs impaired and written off	4	**–**	150
Net impairment charge to oil and gas assets	4	**422,495**	812,448
Write down of inventory		**24,940**	14,588
Write down of asset	4	**–**	415
Change in fair value of investments		**4**	20
Share-based payment charge	5(f)	**3,401**	5,888
Gain on termination of Tanjong Baram risk service contract	5(d)	**(10,209)**	–
Loss on derecognition of assets related to the Seligi riser detachment	5(e)	**956**	–
Change in contingent consideration	22	**(60,991)**	72,685
Change in provisions	23	**119,642**	29,711
Amortisation of option premiums	19	**(6,226)**	(4,936)
Unrealised (gain)/loss on commodity financial instruments	5(a)	**(8,778)**	65,375
Unrealised (gain)/loss on other financial instruments	5(b)	**1,932**	378
Unrealised exchange loss/(gain)		**5,067**	15,587
Net finance expense		**163,339**	190,099
Operating profit before working capital changes		**535,460**	1,006,647
Decrease/(increase) in trade and other receivables		**185,225**	(78,056)
(Increase)/decrease in inventories		**(5,438)**	6,423
(Decrease)/increase in trade and other payables		**(147,417)**	59,604
Cash generated from operations		**567,830**	994,618

Changes in liabilities arising from financing activities

	Loans and borrowings (see note 18) $'000	Bonds (see note 18) $'000	Lease liabilities (see note 24) $'000	Total $'000
At 1 January 2019	(1,049,999)	(990,281)	(769,477)	(2,809,757)
Cash movements:				
Repayments of loans and borrowings	394,025	–	–	394,025
Repayment of lease liabilities	–	–	135,125	135,125
Cash interest paid in year	64,370	67,485	–	131,855
Non-cash movements:				
Additions	–	–	(24,587)	(24,587)
Interest/finance charge payable	(67,749)	(62,694)	(55,686)	(186,129)
Fee amortisation	(811)	(2,591)	–	(3,402)
Foreign exchange adjustments	(1,049)	(6,879)	(1,541)	(9,469)
Other non-cash movements	(69)	(1,023)	–	(1,092)
At 31 December 2019	**(661,282)**	**(995,983)**	**(716,166)**	**(2,373,431)**
Cash movements:				
Repayments of loans and borrowings	**210,671**	**–**	**–**	**210,671**
Repayment of lease liabilities	**–**	**–**	**123,001**	**123,001**
Cash interest paid in year	**31,056**	**–**	**–**	**31,056**
Non-cash movements:				
Additions	**–**	**–**	**(2,812)**	**(2,812)**
Interest/finance charge payable	**(32,791)**	**(73,476)**	**(50,851)**	**(157,118)**
Fee amortisation	**(849)**	**(2,261)**	**–**	**(3,110)**
Foreign exchange adjustments	**(77)**	**(7,923)**	**(1,744)**	**(9,744)**
Disposal	**–**	**–**	**726**	**726**
Other non-cash movements	**498**	**(49)**	**–**	**449**
At 31 December 2020	**(452,774)**	**(1,079,692)**	**(647,846)**	**(2,180,312)**

29. Cash flow information continued

Reconciliation of carrying value

	Loans and borrowings (see note 18) $'000	Bonds (see note 18) $'000	Lease liabilities (see note 24) $'000	Total $'000
Principal	(454,209)	(1,048,355)	(647,846)	(2,150,410)
Unamortised fees	1,925	3,314	–	5,239
Accrued interest (note 17)	(490)	(34,651)	–	(35,141)
At 31 December 2020	**(452,774)**	**(1,079,692)**	**(647,846)**	**(2,180,312)**

30. Subsequent events

Bressay transaction

The Group completed the Bressay transaction on 21 January 2021. Under the agreement, EnQuest has assumed operatorship of the licences with a participating interest of 40.81% for an initial consideration of £2.2 million, payable as a carry against 50% of Equinor's net share of costs from the point EnQuest assumed operatorship. EnQuest will also make a contingent payment of $15 million following OGA approval of a Bressay field development plan. The contingent payment increases to $30 million in the event that EnQuest sole risks Equinor in the submission of the field development plan. There are no gross assets or profit before tax associated with the assets.

Golden Eagle area transaction and Group refinancing

The Group signed an agreement with Suncor on 4 February to purchase Suncor's entire 26.69% non-operated equity interest in the Golden Eagle area, comprising the producing Golden Eagle, Peregrine and Solitaire fields ('the Transaction').

The initial consideration is $325 million (which is subject to working capital and other adjustments), with additional contingent consideration of up to $50 million. The contingent consideration is payable in the second half of 2023, if between July 2021 and June 2023 the Dated Brent average crude price equals or exceeds $55/bbl, upon which $25 million is payable, or if the Dated Brent average crude price equals or exceeds $65/bbl, upon which $50 million is payable. A deposit of c.$3 million (being part of the initial consideration) has been provided in 2021 by EnQuest and will be forfeited in most circumstances if the Transaction does not complete.

EnQuest plans to finance the Transaction through a combination of a new secured debt facility, interim period post-tax cash flows between the economic effective date of 1 January 2021 and completion, and an equity raise (collectively the 'funding arrangements').

It is anticipated the new secured debt facility, in respect of which the Group is currently working closely with its leading lending banks BNP and DNB, will incorporate the refinancing of the existing outstanding senior credit facility. Further, the Group anticipates raising up to $50 million of equity through a placing and open offer, in which shareholders related to Amjad Bseisu are expected to participate in line with their equity holdings. Amjad Bseisu and/or persons related to him are expected to make financing commitments assuring there will be no funding shortfall in respect of this $50 million. These financing commitments constitute a related party transaction and will therefore require independent shareholder approval. J.P. Morgan Securities plc (which conducts its UK investment banking activities as J.P. Morgan Cazenove) is acting as global coordinator, bookrunner and sponsor to EnQuest in connection with the placing and open offer, as financial adviser and sponsor to EnQuest in connection with the Transaction and as sponsor to EnQuest in connection with the related party transaction.

Statement of Directors' Responsibilities for the Parent Company Financial Statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable 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). 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 Company and of the profit or loss of the Company for that period. In preparing the parent 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 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company 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.

Company Balance Sheet (Registered number: 07140891)

At 31 December 2020

	Notes	2020 $'000	2019 $'000
Fixed assets			
Investments	3	**71,351**	1,140,962
Current assets			
Trade and other receivables			
– due within one year	4	**7,340**	5,649
– due after one year	4	**1,046,013**	1,099,722
Cash at bank and in hand		**140**	8
		1,053,493	1,105,379
Trade and other payables: amounts falling due within one year	6	**(42,204)**	(123,083)
Net current assets		**1,011,289**	982,296
Total assets less current liabilities		**1,082,640**	2,123,258
Trade and other payables: amounts falling due after one year	7	**(1,045,041)**	(966,231)
Net assets		**37,599**	1,157,027
Share capital and reserves			
Share capital and premium	8	**345,420**	345,420
Merger reserve		**–**	661,817
Other reserve		**40,143**	40,143
Share-based payment reserve		**1,016**	(1,085)
Profit and loss account		**(348,980)**	110,732
Shareholders' funds		**37,599**	1,157,027

The attached notes 1 to 11 form part of these Company financial statements.

The Company reported a loss for the financial year ended 31 December 2020 of $1,121.5 million (2019: loss of $239.7 million). There were no other recognised gains or losses in the period (2019: $nil).

The financial statements were approved by the Board of Directors and authorised for issue on 24 March 2021 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital and share premium $'000	Merger reserve $'000	Other reserve $'000	Share-based payments reserve $'000	Profit and loss account $'000	Total $'000
At 31 December 2018	345,331	905,890	40,143	(6,884)	106,352	1,390,832
Profit/(loss) for the year	–	–	–	–	(239,693)	(239,693)
Total comprehensive income for the year	–	–	–	–	(239,693)	(239,693)
Share-based payment charge	–	–	–	5,888	–	5,888
Shares purchased on behalf of Employee Benefit Trust	89	–	–	(89)	–	–
Impairment of subsidiary undertakings	–	(244,073)	–	–	244,073	–
At 31 December 2019	**345,420**	**661,817**	**40,143**	**(1,085)**	**110,732**	**1,157,027**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**(1,121,529)**	**(1,121,529)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,121,529)**	**(1,121,529)**
Share-based payment charge	**–**	**–**	**–**	**3,401**	**–**	**3,401**
Shares purchased on behalf of Employee Benefit Trust	**–**	**–**	**–**	**(1,300)**	**–**	**(1,300)**
Impairment of subsidiary undertakings	**–**	**(661,817)**	**–**	**–**	**661,817**	**–**
At 31 December 2020	**345,420**	**–**	**40,143**	**1,016**	**(348,980)**	**37,599**

Notes to the Financial Statements

For the year ended 31 December 2020

1. Corporate information

The separate parent company financial statements of EnQuest PLC (the 'Company') for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 24 March 2021.

EnQuest PLC ('EnQuest' or the 'Company') is a public limited company incorporated and registered in England and is the holding company for the Group of EnQuest subsidiaries (together the 'Group'). The Company address can be found on page 166.

2. Summary of significant accounting policies

Basis of preparation

These separate financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101') and the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council. The Company has previously notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

These financial statements are prepared under the historical cost basis, except for the fair value remeasurement of certain financial instruments as set out in the accounting policies below. The functional and presentation currency of the separate financial statements is US Dollars and all values in the separate financial statements are rounded to the nearest thousand ($'000) except where otherwise stated.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, fair value measurement, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the Group accounts.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the parent company. The parent company's accounts present information about it as an individual undertaking and not about its Group.

Going concern

The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and, notwithstanding the material uncertainty as provided in note 2 of the Group financial statements, the Directors have a reasonable expectation that the Group and therefore the Company, will be able to continue in operation and meet its commitments as they fall due over the going concern period. See note 2 of the Group financial statements, for further details.

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

Critical accounting estimates and judgements

The management of the Group has to make estimates and judgements when preparing the financial statements of the Group. Uncertainties in the estimates and judgements could have an impact on the carrying amount of assets and liabilities and the Group's results. The most important estimates in relation thereto are:

Impairment of investments in subsidiaries

Determination of whether investments have suffered any impairment requires an estimation of the assets' recoverable value. The recoverable value is based on the discounted cash flows expected to arise from the subsidiaries' oil and gas assets, using asset-by-asset life of field projections as part of the Group's assessment for the impairment of the oil and gas assets. The Company's investment in subsidiaries is tested for impairment annually. See Group critical accounting estimates and judgements.

Foreign currencies

Transactions in currencies other than the Company's functional currency are recorded at the prevailing rate of exchange on the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the statement of comprehensive income.

3. Investments

Accounting policy

Investments in subsidiaries are accounted for at cost less any provision for impairment.

(a) Summary

	2020 $'000	2019 $'000
Subsidiary undertakings	**71,344**	1,140,951
Other financial assets at FVPL	**7**	11
Total	**71,351**	1,140,962

(b) Subsidiary undertakings

	Subsidiary undertakings $'000
Cost	
At 1 January 2019	1,379,138
Additions	5,886
At 31 December 2019	1,385,024
Additions	**2,783**
At 31 December 2020	**1,387,807**
Provision for impairment	
At 1 January 2019	–
Impairment charge/(reversal) for the year	244,073
At 31 December 2019	244,073
Impairment charge/(reversal) for the year	**1,072,390**
At 31 December 2020	**1,316,463**
Net book value	
At 31 December 2020	**71,344**
At 31 December 2019	1,140,951
At 31 December 2018	1,379,138

The Company has recognised an impairment of its investment in subsidiary undertakings of $1,072.4 million (2019: impairment of $244.1million). The impairment for the year ended 31 December 2020 is attributable primarily to the change in oil price assumptions during the year.

The Group's recoverable value of its investments is highly sensitive, inter alia, to oil price achieved. A sensitivity has been run on the oil price assumption, with a 10.0% change being considered to be a reasonable possible change for the purposes of sensitivity analysis (see note 2 of the Group accounts). A 10.0% increase in oil price would reduce the net impairment by approximately $371.2 million.

The oil price sensitivity analysis does not, however, represent management's best estimate of any impairments that might be recognised as they do not fully incorporate consequential changes that may arise, such as reductions in costs and changes to business plans, phasing of development, levels of reserves and resources, and production volumes. As the extent of a price reduction increases, the more likely it is that costs would decrease across the industry. The oil price sensitivity analysis therefore does not reflect a linear relationship between price and value that can be extrapolated.

Details of the Company's subsidiaries at 31 December 2020 are provided in note 28 of the Group financial statements.

(c) Other financial assets at FVPL

The interest in other listed investments at the end of the year is part of the Group's investment in the Ordinary share capital of Ascent Resources plc, which is incorporated in the United Kingdom and registered in England and Wales.

4. Trade and other receivables

Financial assets

Financial assets are classified, at initial recognition, as amortised cost, fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL'). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Company does not currently hold any financial assets at FVOCI, i.e. debt financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial assets at amortised cost
Trade receivables, other receivables and joint operation receivables are measured initially at fair value and subsequently recorded at amortised cost, using the effective interest rate ('EIR') method, and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired and EIR amortisation is included within finance costs.

The Company measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Prepayments, which are not financial assets, are measured at historical cost.

Impairment of financial assets
The Company recognises a provision for expected credit loss ('ECL'), where material, for all financial assets held at the balance sheet date. The measurement of expected credit losses is a function of the probability of default, loss given default and exposure at default. ECLs are based on the difference between the contractual cash flows due to the Company, and the discounted actual cash flows that are expected to be received. Where there has been no significant increase in credit risk since initial recognition, the loss allowance is equal to 12-month expected credit losses. Where the increase in credit risk is considered significant, lifetime credit losses are provided. For trade receivables a lifetime credit loss is recognised on initial recognition where material.

The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e. by geographical region, product type, customer type and rating) and are based on their historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company evaluates the concentration of risk with respect to intercompany receivables as low, as its customers are intercompany ventures, and has considered the risk relating to the probability of default on loans that are repayable on demand. The Company has evaluated an expected credit loss of $46.7 million for the year ended 31 December 2020, as required by IFRS 9's expected credit loss model (2019: $0.5 million). Once the company has completed the Golden Eagle acquisition and refinancing in 2021, the ECL, required under the IFRS 9 model, is expected to reduce considerably.

	2020 $'000	2019 $'000
Due within one year		
Amounts due from subsidiaries	**7,290**	5,649
Prepayments	**50**	–
	7,340	5,649
Due after one year		
Amounts due from subsidiaries	**1,046,013**	1,099,722

5. Deferred tax
The Company has unused UK mainstream corporation tax losses of $63.3 million (2019: $56.8 million) for which no deferred tax asset has been recognised at the balance sheet date due to the uncertainty of recovery of these losses.

6. Trade and other payables: amounts falling due within one year
Accounting policy
Financial liabilities
Financial liabilities are classified, at initial recognition, as amortised cost or at fair value through profit or loss.

Financial liabilities are derecognised when they are extinguished, discharged, cancelled or they expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Group income statement.

Financial liabilities at amortised cost
Loans and borrowings, trade payables and other creditors are measured initially at fair value net of directly attributable transaction costs and subsequently recorded at amortised cost, using the effective interest rate method. Loans and borrowings are interest bearing. Gains and losses are recognised in profit or loss when the liability is derecognised and EIR amortisation is included within finance costs.

	2020 $'000	2019 $'000
Bond interest	**18,105**	16,992
Other interest	**16,569**	12,761
Amounts due to subsidiaries	**7,345**	93,185
Accruals	**185**	145
	42,204	123,083

7. Trade and other payables: amounts falling due after one year

	2020 $'000	2019 $'000
Bonds	**1,045,041**	966,231

At 31 December 2020, bonds comprise a high yield bond with principal of $799.1 million (2019: $746.1 million) and a retail bond with principal of $249.2 million (2019: $225.7 million). The bonds mature in October 2023 and pay a coupon of 7.0% bi-annually. See note 18 of the Group financial statements. The maturity profile of the bonds are disclosed in note 27 of the Group financial statements.

8. Share capital and share premium

The movement in the share capital and share premium of the Company was as follows:

Authorised, issued and fully paid	Ordinary shares of £0.05 each Number	Share capital $'000	Share premium $'000	Total $'000
At 1 January 2020	1,695,801,955	118,271	227,149	345,420
At 31 December 2020	**1,695,801,955**	**118,271**	**227,149**	**345,420**

The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

At 31 December 2020, there were 46,492,546 shares held by the Employee Benefit Trust (2019: 43,232,936). 9,562,007 shares were issued across 2020 to the Employee Benefit Trust with the remaining movement in the year due to shares used to satisfy awards made under the Company's share-based incentive schemes.

9. Reserves

Share capital and share premium

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of registered share capital of the parent company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. The share capital comprises only one class of Ordinary share. Each Ordinary share carries an equal voting right and right to a dividend.

Merger reserve

The Company merger reserve is used to record the difference between the market value of EnQuest shares issued to effect the business combinations less the nominal value of the shares issued where merger relief applies to the transaction. The reserve is adjusted for any write down in the value of the investment in the subsidiary. During the year the merger reserve was released to retained earnings as the assets which gave rise to its original recognition are now fully written down.

Other reserve

The other reserve is used to record any other transactions taken straight to reserves as non-distributable.

Share-based payments reserve

The reserve for share-based payments is used to record the value of equity-settled share-based payments awards to employees and the balance of the shares held by the Company's Employee Benefit Trust. Transfers out of this reserve are made upon vesting of the original share awards. Share-based payment plan information is disclosed in note 21 of the Group financial statements.

10. Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in note 5(g) of the Group financial statements.

11. Directors' remuneration

The emoluments of the Directors are paid to them in their capacity as Directors of the Company for qualifying services to the Company and the EnQuest Group. Further information is provided in the Directors' Remuneration Report on pages 91 and 92.

Glossary – Non-GAAP measures

The Group uses Alternative Performance Measures ('APMs') when assessing and discussing the Group's financial performance, balance sheet and cash flows that are not defined or specified under IFRS. The Group uses these APMs, which are not considered to be a substitute for or superior to IFRS measures, to provide stakeholders with additional useful information by adjusting for exceptional items and certain remeasurements which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, balance sheet and cash flows.

Business performance net profit attributable to EnQuest PLC shareholders	2020 $'000	2019 $'000
Reported net profit/(loss) (A)	**(625,802)**	(449,301)
Adjustments – remeasurements and exceptional items (note 4):		
Unrealised (losses)/gains on oil derivative contracts (note 19)	**8,778**	(65,375)
Unrealised (gains)/losses on foreign exchange derivative contracts (note 19)	**(1,932)**	1,684
Unrealised (gains)/losses on carbon derivative contracts (note 19)	**–**	(2,062)
Net impairment (charge)/reversal to oil and gas assets (note 10, 11 and note 12)	**(422,495)**	(812,448)
Unwind of contingent consideration (note 22)	**(77,259)**	(57,165)
Change in contingent consideration (note 22)	**138,249**	(15,520)
Redundancy provision (note 23)	**(5,792)**	–
PM8/Seligi riser provision (note 23)	**(5,902)**	–
Loss on derecognition of assets related to the Seligi riser detachment (note 5(e))	**(956)**	–
KUFPEC provision	**–**	(15,630)
Other exceptional items	**–**	(585)
Pre-tax remeasurements and exceptional items (B)	**(367,309)**	(967,101)
Tax on remeasurements and exceptional items (C)	**(232,306)**	303,460
Post-tax remeasurements and exceptional items (D = B + C)	**(599,615)**	(663,641)
Business performance net profit attributable to EnQuest PLC shareholders (A – D)	**(26,187)**	214,340

EBITDA	2020 $'000	2019 $'000
Reported profit/(loss) from operations before tax and finance income/(costs)	**(310,069)**	(467,768)
Adjustments:		
Remeasurements and exceptional items (note 4)	**290,050**	909,936
Depletion and depreciation (note 5(b) and note 5(c))	**445,863**	533,352
Inventory revaluation	**24,940**	14,588
Change in provision (note 23)	**95,197**	–
Net foreign exchange (gain)/loss (note 5(d) and note 5(e))	**4,625**	16,427
Business performance EBITDA (E)	**550,606**	1,006,535

EBITDA is calculated on a 'Business performance' basis, and is calculated by taking profit/(loss) from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements, inventory revaluation, change in provision and the realised gain/(loss) on foreign currency and derivatives related to capital expenditure.

Total cash and available facilities	2020 $'000	2019 $'000
Available cash	**113,185**	144,214
Ring-fenced cash	**107,970**	73,985
Restricted cash	**1,675**	2,257
Total cash and cash equivalents (F) (note 14)	**222,830**	220,456
Available credit facilities	**450,000**	535,000
Credit facility – Drawn down (appendix)	**(360,000)**	(460,000)
Letter of credit (note 18)	**(28,778)**	(6,849)
Available undrawn facility (G)	**61,222**	68,151
Total cash and available facilities (F + G)	**284,052**	288,607

Net debt	2020 $'000	2019 $'000
Borrowings (note 18):		
Credit facility – Drawn down	**360,000**	460,000
Credit facility – PIK	**17,270**	15,097
Sculptor Capital facility	**65,776**	120,287
SVT working capital facility	**9,238**	31,899
Tanjong Baram project financing facility	**–**	31,730
Borrowings (H)	**452,284**	659,013
Bonds (note 18):		
High yield bond	**796,528**	741,573
Retail bond	**248,513**	224,658
Bonds (I)	**1,045,041**	966,231
Non-cash accounting adjustments (note 18):		
Unamortised fees on loans and borrowings	**1,925**	2,625
Unamortised fees on bonds	**3,314**	5,572
Non-cash accounting adjustments (J)	**5,239**	8,197
Debt (H + I + J) (K)	**1,502,564**	1,633,441
Less: Cash and cash equivalents (note 14) (E)	**222,830**	220,456
Net debt/(cash) (K – F) (L)	**1,279,734**	1,412,985

Net debt/EBITDA	2020 $'000	2019 $'000
Net debt (L)	**1,279,734**	1,412,985
Business performance EBITDA (E)	**550,606**	1,006,535
Net debt/EBITDA (L/E)	**2.3**	1.4

Cash capex	2020 $'000	2019 $'000
Reported net cash flows (used in)/from investing activities	**(120,597)**	(257,838)
Adjustments:		
Repayment of Magnus contingent consideration – Profit share	**41,071**	21,581
Net cash received on termination of Tanjong Baram risk service contract	**(51,054)**	–
Interest received	**(796)**	(1,225)
Cash capex	**(131,376)**	(237,482)

Free cash flow	2020 $'000	2019 $'000
Net cash flows from/(used in) operating activities	**522,085**	962,271
Net cash flows from/(used in) investing activities	**(120,597)**	(257,838)
Net cash flows from/(used in) financing activities	**(401,014)**	(729,996)
Adjustments:		
Repayment of loans and borrowings	**210,671**	394,025
Free cash flow	**211,145**	368,462

Revenue sales	2020 $'000	2019 $'000
Revenue from crude oil sales (note 5(a)) (M)	**779,865**	1,548,177
Revenue from gas and condensate sales (note 5(a)) (N)	**60,486**	120,242
Realised (losses)/gains on oil derivative contracts (note 5(a)) (P)	**(6,059)**	24,756

Glossary – Non-GAAP measures continued

Barrels equivalent sales	2020 kboe	2019 kboe
Sales of crude oil (Q)	**18,758**	24,098
Sales of gas and condensate(i)	**3,471**	4,082
Total sales (R)	**22,229**	28,180

(i) Includes volumes related to onward sale of third-party gas purchases not required for injection activities at Magnus

Average realised prices	2020 $/Boe	2019 $/Boe
Average realised oil price, excluding hedging (M/Q)	**41.6**	64.2
Average realised oil price, including hedging ((M + P)/Q)	**41.3**	65.3
Average realised blended price, excluding hedging ((M + N)/R)	**37.8**	59.2
Average realised blended price, including hedging ((M + N + P)/R)	**37.5**	60.1

Operating costs	2020 $'000	2019 $'000
Reported cost of sales (note 5(b))	**799,081**	1,243,948
Adjustments:		
Remeasurements and exceptional items (note 5(b))	**(13,626)**	(378)
Depletion of oil and gas assets (note 5(b))	**(438,247)**	(525,145)
(Credit)/charge relating to the Group's lifting position and inventory (note 5(b))	**34,801**	(102,853)
Other cost of sales (note 5(b))	**(53,367)**	(97,459)
Operating costs	**328,642**	518,113
Less realised (gain)/loss on derivative contracts (note 5(b))	**572**	1,707
Operating costs directly attributable to production	**329,214**	516,406
Comprising of:		
Production costs (S) (note 5(b))	**265,529**	441,624
Tariff and transportation expenses (T) (note 5(b))	**63,685**	74,782
Operating costs directly attributable to production	**329,214**	516,406

Barrels equivalent produced	2020 kboe	2020 kboe
Total produced (working interest) (U)	**21,636**	25,041

Unit opex	2020 $/Boe	2019 $/Boe
Production costs (S/U)	**12.3**	17.6
Tariff and transportation expenses (T/U)	**2.9**	3.0
Total unit opex ((S + T)/U)	**15.2**	20.6

Company information

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EnQuest PLC shares are traded on the London Stock Exchange and on the NASDAQ OMX Stockholm, in both cases using the code 'ENQ'.

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Financial calendar
12 May 2021: Annual General Meeting
2 September 2021: Half year results (subject to change)

Forward-looking statements:
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