IMPORTANT NOTICE

THIS OFFERING MEMORANDUM (THE "**OFFERING MEMORANDUM**") IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**") WITHIN THE MEANING OF RULE 144A ("**RULE 144A**") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR (2) PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) AND WHO ARE OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S ("**REGULATION S**") UNDER THE SECURITIES ACT AND, IF INVESTORS ARE RESIDENT IN (I) A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, QUALIFIED INVESTORS AS SUCH TERM IS DEFINED IN REGULATION (EU) 2017/1129 (THE "**PROSPECTUS REGULATION**") OR (II) THE UNITED KINGDOM, QUALIFIED INVESTORS AS INVESTORS AS DEFINED IN ARTICLE 2 OF REGULATION (EU) 2017/1129 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 (THE "**U.K. PROSPECTUS REGULATION**").

IMPORTANT: You must read the following before continuing. The following applies to this Offering Memorandum following this notice, whether received by email or otherwise received as a result of electronic communication. You are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE OFFERING MEMORANDUM HAS BEEN PREPARED IN CONNECTION WITH THE PROPOSED OFFER AND SALE OF THE NOTES DESCRIBED THEREIN. THE OFFERING MEMORANDUM IS CONFIDENTIAL AND SHOULD NOT BE DISTRIBUTED, PUBLISHED, REPRODUCED (IN WHOLE OR IN PART) OR DISCLOSED BY RECIPIENTS TO ANY OTHER PERSON.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, "**U.S. PERSONS**" (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED HEREIN.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs (within the meaning of Rule 144A under the U.S. Securities Act) or (2) non-U.S. persons (within the meaning of Regulation S under the U.S. Securities Act) and outside the U.S.; *provided* that investors resident in a Member State of the EEA or the United Kingdom are not a "retail investor" as defined below. This Offering Memorandum is being sent at your request and by accepting the e-mail and accessing this Offering Memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) not U.S. persons and that the electronic mail address that you gave us and to which this Offering Memorandum has been delivered is not located in the United States; its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia (and if you are resident in a Member State of the European Economic Area ("**EEA**") or the United Kingdom, you are a not a retail investor) and (2) that you consent to delivery of such Offering Memorandum by electronic transmission.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the Company (as defined herein) in such jurisdiction.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the initial purchasers set forth in the attached Offering Memorandum (collectively, the "**Initial Purchasers**") nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generated by using the "reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this email is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Any securities to be issued will not be registered under the Securities Act or the securities laws of any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as such terms are defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Notwithstanding the foregoing, prior to the expiration of a 40-day distribution compliance period (as defined under Regulation S under the Securities Act) commencing on the issue date, the securities may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons, except pursuant to another exemption from the registration requirements of the Securities Act.

EEA

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in a member state of the EEA. For the purposes of this paragraph, a retail investor means a person who is one (or more) of: (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65 (as amended, "**MiFID II**"); (b) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a "professional client" as defined in point (10) of Article 4(1) of MiFID II; or (c) not a "qualified investor" as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**").

Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

This Offering Memorandum has been prepared on the basis that any offer of Notes in any member state of the EEA will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. This Offering Memorandum is not a prospectus for the purposes of the Prospectus Regulation.

MIFID II product governance / Professional investors and eligible counterparty only target market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in the EEA in respect of the Notes described in the Offering Memorandum has led to the conclusion that: (i) the target market for the Notes is professional clients and eligible counterparties, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. A distributor should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

United Kingdom

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For the purposes of this paragraph, a "retail investor" means a person who is one (or more) of the following: (a) a retail client, as defined in point (8) of Article 2 of Regulation No 2017/565 as amended as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (b) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of EUWA; or (c) not a qualified investor as defined in Article 2 of the U.K. Prospectus Regulation, and the expression an offer includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**U.K. PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the U.K. PRIIPs Regulation.

This Offering Memorandum has been prepared on the basis that any offer of Notes in the United Kingdom will be made pursuant to an exemption under the U.K. Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. This Offering Memorandum is not a prospectus for the purposes of the U.K. Prospectus Regulation.

U.K. product governance / professional client and eligible counterparty only target market Solely for the purposes of each manufacturer's product approval process, the target market assessment in the United Kingdom in respect of the Notes described in the Offering Memorandum has led to the conclusion that: (i) the target market for the Notes is professional clients and eligible counterparties, each as defined in the Glossary to the Financial Conduct Authority ("**FCA**") Handbook of Rules and Guidance; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. A distributor should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

The attached Offering Memorandum has not been approved for the purposes of Section 21 of FSMA by an authorized person under FSMA. In the United Kingdom, the attached Offering Memorandum and any other material in relation to the Notes described therein are being distributed only to, and are directed only at, persons who are "qualified investors" (as defined in the U.K. Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"), or high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (ii) persons to whom it would otherwise be lawful to distribute them, all such persons together being referred to as "**Relevant Persons.**" The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. The attached Offering Memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by any recipients to any other person in the United Kingdom who is not a Relevant Person. Any person in the United Kingdom that is not a Relevant Person should not act or rely on the attached Offering Memorandum or its contents.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes other than in circumstances in which Section 21(1) of the FSMA does not apply to the Company (as defined herein).

Malaysia

No action has been, or will be taken, to comply with Malaysia laws for making available, offering for subscription or purchase, or issuing any invitation to subscribe for or purchase or sale of the Notes in Malaysia or to persons in Malaysia as the Notes are not intended by the Company to be made available, or made the subject of any offer or invitation to subscribe or purchase, in Malaysia. Neither this document nor any document or other material in connection with the Notes should be distributed, caused to be distributed or circulated in Malaysia. No person should make available or make any invitation or offer or invitation to sell or purchase the Notes in Malaysia unless such person takes the necessary action to comply with Malaysian laws.

OFFERING MEMORANDUM

NOT FOR GENERAL DISTRIBUTION IN THE UNITED STATES
STRICTLY CONFIDENTIAL

$305,000,000

11⅝% Senior Notes due 2027

EnQuest PLC

EnQuest PLC, incorporated as a public limited liability company under the laws of England and Wales (the "**Company**"), is offering $305,000,000 aggregate principal amount of its 11⅝% Senior Notes due 2027 (the "**Notes**"). We will pay interest on the Notes semi-annually on May 1 and November 1 of each year, commencing May 1, 2023. The Notes will mature on November 1, 2027.

At any time on or after November 1, 2024 we may redeem all or part of the Notes by paying the redemption prices set forth in this offering memorandum (the "**Offering Memorandum**"). Prior to November 1, 2024, we will be entitled, at our option, to redeem all or a portion of the Notes by paying 100% of the principal amount of such Notes, plus accrued and unpaid interest, if any, plus a "make-whole" premium. In addition, prior to November 1, 2024, we may redeem, at our option, up to 40% of the Notes with the net proceeds from certain equity offerings. Prior to November 1, 2024, we may redeem during each twelve-month period commencing with the Issue Date (as defined herein) up to 10% of the original principal amount of the Notes at a redemption price equal to 103% of the principal amount of the Notes so redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. If we undergo certain events defined as constituting a change of control, each holder may require us to repurchase all or a portion of its Notes at 101% of their principal amount, plus accrued and paid interest, if any. In the event of certain developments affecting taxation, we may redeem all, but not less than all, of the Notes.

The Notes will be senior debt of the Company and will rank *pari passu* in right of payment with all the Company's existing and future senior obligations. The Notes initially will be guaranteed on a senior subordinated basis (the "**Note Guarantees**") by certain of our subsidiaries (the "**Guarantors**"). The Notes will be structurally subordinated to all existing and future obligations and other liabilities (including trade payables) of our subsidiaries that are not Guarantors.

This Offering Memorandum includes information on the terms of the Notes and Note Guarantees, including redemption and repurchase prices, covenants and transfer restrictions.

There is currently no public market for the Notes. Application will be made to list the Notes on the Official List of the Luxembourg Stock Exchange (the "**Exchange**") and to be admitted to trading on the Euro MTF Market thereof. There can be no assurance that the Notes will be listed on the Official List of the Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

Investing in the Notes involves a high degree of risk. See the "*Risk factors*" section of this Offering Memorandum beginning on page 42 for a discussion of certain risks that you should consider in connection with an investment in any of the Notes.

Price: 98.611% plus accrued interest, if any, from October 25, 2022.

We expect that the Notes will be delivered in book entry form through The Depository Trust Company ("**DTC**") on or about October 25, 2022 (the "**Issue Date**"). The Notes will be registered in form and will be initially held in minimum principal amounts of $200,000 and integral multiples of $1,000 in excess thereof and will only be transferrable in minimum principal amounts of $200,000 and integral multiples of $1,000 in excess thereof.

The Notes and the Note Guarantees have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. In the United States, this offering is being made only to "qualified institutional buyers" (as defined in Rule 144A of the U.S. Securities Act) in compliance with Rule 144A under the U.S. Securities Act ("Rule 144A"). You are hereby notified that the Initial Purchasers (as defined herein) of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. Outside of the United States, this offering is being made in reliance on Regulation S under the U.S. Securities Act. For further details about eligible offerees and resale restrictions, see "*Plan of distribution*" and "*Notice to investors*."

Global Coordinators and Joint Active Bookrunners

BNP PARIBAS **BofA Securities** **DNB Markets** **Goldman Sachs International**
(*B&D*)

Bookrunner

Deutsche Bank

The date of this Offering Memorandum is October 12, 2022.

In making your investment decision, you should rely only on the information contained in this Offering Memorandum. We and BNP Paribas, BofA Securities, Inc., Deutsche Bank AG, London Branch, DNB Markets, Inc. and Goldman Sachs International (collectively, the "Initial Purchasers") have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it. We and the Initial Purchasers are offering to sell the Notes only in places where offers and sales are permitted. You should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front cover of this Offering Memorandum. Our business or financial condition and other information in this Offering Memorandum may change after that date.

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IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

This Offering Memorandum is a confidential document that we are providing only to prospective purchasers of the Notes. You should read this Offering Memorandum before making a decision whether to purchase any Notes. You must not:

- use this Offering Memorandum for any other purpose;
- make copies of any part of this Offering Memorandum or give a copy of it to any other person; or
- disclose any information in this Offering Memorandum to any other person, other than a person retained to advise you in connection with the purchase of the Notes.

We have prepared this Offering Memorandum based on information we have or have obtained from sources we believe to be reliable. Summaries of documents contained in this Offering Memorandum may not be complete. We will make copies of actual documents available to you upon request. Neither we, the Initial Purchasers nor the Trustee, Registrar, Transfer Agent or any Paying Agent is providing you with any legal, investment, business, tax or other advice in this Offering Memorandum. You should consult with your own counsel, accountants and other advisors as needed to assist you in making your investment decision and to advise you whether you are legally permitted to purchase the Notes.

This Offering Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the Notes may not be offered or sold, directly or indirectly, and this Offering Memorandum may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this Offering Memorandum, and you must obtain all applicable consents and approvals; neither we nor the Initial Purchasers shall have any responsibility for any of the foregoing legal requirements.

We are offering the Notes, and the Guarantors are issuing the Note Guarantees, in reliance on (i) an exemption from registration under the U.S. Securities Act for an offer and sale of securities that does not involve a public offering and (ii) a transaction pursuant to Regulation S that is not subject to the registration requirements of the U.S. Securities Act. If you purchase the Notes, you will be deemed to have made certain acknowledgments, representations and warranties as detailed under "*Notice to investors*". The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable securities laws of any other jurisdiction pursuant to registration or exemption therefrom. You may be required to bear the financial risk of an investment in the Notes for an indefinite period. Neither we nor the Initial Purchasers are making an offer to sell the Notes in any jurisdiction where the offer and sale of the Notes is prohibited. Neither we nor the Initial Purchasers are making any representation to you that the Notes are a legal investment for you. In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of this offering, including the merits and risks involved. In addition, neither the Company nor the Initial Purchasers nor any of their respective representatives nor any of their affiliates are making any representation to you regarding the legality of an investment in the Notes, and you should not construe anything in this Offering Memorandum as legal, business, tax or other advice. You should consult your own advisors as to the legal, tax, business, financial and related aspects of an investment in the Notes.

Each prospective purchaser of the Notes must comply with all applicable laws and rules and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither we nor the Initial Purchasers shall have any responsibility therefor.

Neither the U.S. Securities and Exchange Commission (the "**SEC**"), any U.S. state securities commission nor any non-U.S. securities authority nor other authority has approved or disapproved of the Notes or determined if this Offering Memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

We accept responsibility for the information contained in this Offering Memorandum. We have made all reasonable inquiries and confirm to the best of our knowledge, information and belief that the information contained in this Offering Memorandum with regard to us and our subsidiaries and affiliates and the Notes is true and accurate in all material respects, that the opinions and intentions expressed in this Offering Memorandum are honestly held and that we are not aware of any other facts, the omission of which would make this Offering Memorandum or any statement contained herein misleading in any material respect.

Neither the Initial Purchasers nor the Trustee, Registrar, Transfer Agent or any Paying Agent makes any representation or warranty, express or implied, as to, and assumes no responsibility for, the accuracy or completeness of the information contained in this Offering Memorandum. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers as to the past, the present or the future.

In connection with the offering contemplated by this Offering Memorandum, the Initial Purchasers are acting exclusively for the Company and no one else. Accordingly, in connection with the offering contemplated by this Offering Memorandum, the Initial Purchasers will not be responsible to anyone other than the Company for providing the protections (regulatory or otherwise) afforded to their clients or for the giving of advice in relation to the offering of the Notes.

We reserve the right to withdraw this offering at any time. We and the Initial Purchasers may reject any offer to purchase the Notes in whole or in part for any reason or no reason, sell less than the entire principal amount of the Notes offered hereby or allocate to any purchaser less than all of the Notes for which it has subscribed. The Initial Purchasers and certain of their respective related entities may acquire, for their own accounts, a portion of the Notes.

The information set out in relation to sections of this Offering Memorandum describing clearing and settlement arrangements, including in the "*Description of Notes*" and "*Book-entry, delivery and form,*" is subject to a change in or reinterpretation of the rules, regulations and procedures of DTC currently in effect. While we accept responsibility for accurately summarizing the information concerning DTC, we accept no further responsibility in respect of such information.

We will apply to have the Notes listed on the Official List of the Exchange, without admission to trading on one of the securities markets operated by the Exchange. In the course of any review by the competent authority, we may be required (under applicable law, rules, regulations or guidance applicable to the listing of securities or otherwise) to make certain changes or additions to or deletions from the description of our business, financial statements and other information contained in this offering memorandum in producing listing particulars for such listing. Comments by the competent authority may require significant modification or reformulation of information contained in this offering memorandum or may require the inclusion of additional information in the listing particulars. We may also be required to update the information in this offering memorandum to reflect changes in our business, financial condition or results of operations and prospects since the publication of this offering memorandum. We cannot guarantee that such application for the admission of the Notes to listing on the Exchange will be approved as of the Issue Date or at any time thereafter, and settlement of the Notes is not conditioned on obtaining this listing. Following the listing, the relevant listing particulars will be available at the offices of the Company. Any investor or potential investor should not base any investment decision relating to the Notes on the information contained in this Offering Memorandum after publication of the listing particulars and should refer instead to the listing particulars.

IN CONNECTION WITH THIS OFFERING, GOLDMAN SACHS INTERNATIONAL (THE "STABILIZING MANAGER") (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL OTHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, NO ASSURANCE CAN BE GIVEN THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THIS OFFERING IS MADE AND, IF BEGUN, MAY BE DISCONTINUED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE ISSUE DATE AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSONS ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "*PLAN OF DISTRIBUTION*."

NOTICE TO U.S. INVESTORS

This offering is being made in the United States in reliance upon an exemption from registration under the U.S. Securities Act for an offer and sale of the Notes which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. See "*Notice to investors*."

This Offering Memorandum is being provided (1) to a limited number of U.S. investors that we reasonably believe to be QIBs under Rule 144A under the U.S. Securities Act for informational use solely in connection with their consideration of the purchase of the Notes and (2) to non-U.S. persons outside the United States pursuant to offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act. The Notes described in this Offering Memorandum have not been registered with, recommended by or approved by the SEC, any state securities commission in the United States or any other securities commission or regulatory authority, nor has the SEC, any state securities commission in the United States or any such securities commission or authority passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

NOTICE TO CERTAIN OTHER INVESTORS

EEA

PRIIPs Regulation / Prohibition of sales to EEA retail investors The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in a member state in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive (EU) 2014/65 (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering, selling or distributing the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering, selling or distributing the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation. This Offering Memorandum has been prepared on the basis that any offer of Notes in any member state of the EEA will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. This Offering Memorandum is not a prospectus for the purposes of the Prospectus Regulation.

MIFID II product governance / Professional investors and eligible counterparty only target market Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Luxembourg

This offering memorandum should not be considered a public offering of securities in Luxembourg. The Notes may not be offered or sold to the public in Luxembourg, directly or indirectly unless:

(a)

(i) a prospectus has been duly approved by the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") pursuant to part II of the Luxembourg law dated July 16, 2019 on prospectuses for securities, which applies to the Prospectus Regulation (the "**Luxembourg Prospectus Law**"), if Luxembourg is the home Member State as defined under the Prospectus Regulation; or

(ii) if Luxembourg is not the home Member State as defined under the Prospectus Regulation, the CSSF and the European Securities and Markets Authority have been provided by the competent authority in the home Member State with a certificate of approval attesting that a prospectus in relation to the Notes has been duly approved in accordance with the Prospectus Regulation and with a copy of that prospectus; or

(iii) the offer of Notes benefits from an exemption from, or constitutes a transaction not subject to, the requirement to publish a prospectus or similar document under the Luxembourg Prospectus Law; and

(b) the PRIIPS Regulation and the Luxembourg law of April 17, 2018 implementing PRIIPS in Luxembourg has been complied with.

United Kingdom

U.K. PRIIPs Regulation / Prohibition of sales to U.K. retail investors This Offering Memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "**Financial Promotion Order**"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the

Financial Services and Markets Act 2000 ("**FSMA**")) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**Relevant Persons**"). This Offering Memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons and will be engaged only with Relevant Persons.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**U.K.**"). For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as amended as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended, the "**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) 600/2014 as it forms part of domestic law by virtue of the EUWA or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (as amended, the "**U.K. Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (as amended, the "**U.K. PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the U.K. has been prepared and, therefore, offering or selling the Notes or otherwise making them available to any retail investor in the U.K. may be unlawful under the U.K. PRIIPs Regulation.

This Offering Memorandum has been prepared on the basis that any offer of the Notes in the U.K. will be made pursuant to an exemption under the U.K. Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. This Offering Memorandum is not a prospectus for the purposes of the U.K. Prospectus Regulation.

U.K. product governance / professional client and eligible counterparty only target market Solely for the purposes of each manufacturer's product approval process, the target market assessment in the United Kingdom in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is professional clients and eligible counterparties, each as defined in the Glossary to the Financial Conduct Authority ("**FCA**") Handbook of Rules and Guidance; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Malaysia

No action has been, or will be taken, to comply with the laws of Malaysia for making available, offering for subscription or purchase, or issuing any invitation to subscribe for or purchase or sale of the Notes in Malaysia or to persons in Malaysia as the Notes are not intended by the Company to be made available, or made the subject of any offer or invitation to subscribe or purchase, in Malaysia. Neither this document nor any document or other material in connection with the Notes should be distributed, caused to be distributed or circulated, directly or indirectly, to any person in Malaysia unless the necessary action to comply with Malaysian laws has been first taken. No person should make available or make any invitation or offer or invitation to sell or purchase the Notes in Malaysia unless such person takes the necessary action to comply with Malaysian laws. Without limiting the generality of the foregoing, no approval of the Securities Commission Malaysia pursuant to Section 212 of the Capital Markets and Services Act 2007 of Malaysia or, where any offer is made in or from within the Federal Territory of Labuan, the Labuan Financial Services Authority pursuant to Section 8 of the Labuan Financial Services and Securities Act 2010, or of any other Malaysian authority under any Malaysian law has been obtained and such approval will not be obtained and this document will not be lodged or registered with the Securities Commission Malaysia, the Labuan Financial Services Authority or other Malaysian authority.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes statements that are, or may deemed to be, "forward-looking statements," within the meaning of the securities laws of certain jurisdictions, including statements under the headings "*Presentation of industry and market data*," "*Summary*," "*Risk factors*," "*Management's discussion and analysis of financial condition and results of operations*," "*Our business*" and other sections. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "anticipate," "expect," "suggests," "plan," "believe," "intend," "estimates," "targets," "projects," "should," "could," "would," "may," "will," "forecast," and other similar expressions or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Offering Memorandum and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made, described in or suggested by the forward-looking statements contained in this Offering Memorandum. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Offering Memorandum, those results or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements that we make in this Offering Memorandum speak only as of the date of such statement, and we undertake no obligation and do not intend to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may not be within our control. We believe that these risks and uncertainties include, but are not limited to, those described in the "*Risk factors*" section of this Offering Memorandum:

- the volatility in oil prices;
- climate change legislation, including costs of complying with such legislation;
- the level of our 1P and 2P Reserves and 2C Resources may be lower than expected;
- the inability to replace 2P Reserves that we produce;
- drilling, exploration and production risks and hazards;
- significant uncertainty as to the success of project execution and delivery;
- the competitiveness of our industry;
- the effect of geopolitical conflicts especially regarding the military action of Russia against Ukraine and the resulting sanctions against Russia, Russian companies and individuals as well as the impact on oil prices;
- the effect of the United Kingdom's withdrawal from the European Union;
- the technological developments in the industry;
- the effect of oil prices on our ability to generate future cash to fund capital expenditures, sustain operations and meet liquidity requirements;
- difficulties to repay the Notes currently scheduled to be repayable;
- the concentration of our production in a relatively small number of fields in the UKCS and Malaysia;
- our reliance on old equipment or operated by third parties;
- changes in the licensing, regulatory and fiscal regimes in the United Kingdom and Malaysia;
- our acquisition of exploration, development and production properties;

- delays, additional costs and other difficulties relating to our work with commercial partners;
- our customer concentration;
- counterparty credit risk;
- approval of commercial partners regarding exit strategies;
- the failure by us, our contractors and our offtakers and suppliers to obtain access to necessary equipment;
- failure to integrate acquisitions successfully;
- unanticipated increases in decommissioning obligations;
- our hedging activities;
- our dependence on, and our ability to hire and retain, the expertise of certain employees, directors and managers;
- damage to our business reputation;
- inadequate insurance coverage;
- risk of litigation;
- currency exchange and inflation;
- our inability to dispose of assets on attractive terms;
- costs relating to compliance with, or liability under, health, safety and environmental regulations;
- violations of anti-corruption laws;
- disruption to our website and internal systems;
- our lack of ownership of our trademarks and other intellectual property;
- the effect of COVID-19;
- work stoppages and labor disputes;
- changes in our estimated tax liability and changes in tax laws and regulations;
- title to our assets and licenses; and
- compliance with regulatory regimes associated with international operations.

Statements relating to reserves are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

The list above is not exhaustive and there are other factors that may cause our actual results to differ materially from the forward-looking statements contained in this Offering Memorandum. Moreover, new risk factors emerge from time to time and it is not possible for us to predict all such risk factors. We cannot assess the impact of all risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results.

We urge you to read the sections of this Offering Memorandum entitled "*Risk factors*," "*Management's discussion and analysis of financial condition and results of operations*," "*Presentation of industry and market data*" and "*Our business*" for a more complete discussion of the factors that could affect our future performance and the markets in which we operate.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial information

Our audited group financial statements as at and for the years ended December 31, 2019, 2020 and 2021 (the "**2019 Audited Group Financial Statements**", "**2020 Audited Group Financial Statements**", "**2021 Audited Group Financial Statements**" and together, the "**Audited Group Financial Statements**") and the unaudited interim financial statements as at and for the six months ended June 30, 2022 with unaudited comparative financial information for the six months ended June 30, 2021 (the "**Unaudited Group Interim Financial Statements**" and together with the Audited Group Financial Statements, the "**Group Financial Statements**") included in this Offering Memorandum have been prepared in accordance with:

- for the 2019 Audited Group Financial Statements, the International Financial Reporting Standards, as adopted by the European Union as issued by the International Accounting Standards Board and in compliance with Article 4 of the EU IAS Regulation;
- for the 2020 Audited Group Financial Statements, the International Accounting Standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union; and
- for the 2021 Audited Group Financial Statements, the International Accounting Standards in conformity with the requirements of the Companies Act 2006, and in accordance with UK adopted International Accounting Standards;

collectively, "**IFRS**";

- for the Unaudited Group Interim Financial Statements, International Accounting Standard 34 ("**IAS 34**") – *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**") and as endorsed by the United Kingdom.

In this Offering Memorandum, we present certain financial information for the twelve months ended June 30, 2022. We calculated our condensed consolidated group income statement information for the twelve months ended June 30, 2022 by adding the unaudited condensed consolidated interim income statement information of the Company for the six months ended June 30, 2022 to the audited consolidated income statement as of and for the year ended December 31, 2021 and subtracting the unaudited condensed consolidated interim income statement information of the Company for the six months ended June 30, 2021.

Our Group Financial Statements are presented in U.S. dollars, which is our functional currency.

The Group Financial Statements, including the respective audit reports, contained in the F-Pages to this Offering Memorandum should be read in conjunction with the relevant notes thereto.

Prospective investors are advised to consult with their professional advisors for an understanding of: (i) the differences between IFRS and U.S. GAAP and other standards of generally accepted accounting principles and how those differences might affect the financial information included in this Offering Memorandum and (ii) the impact that future additions to, or amendments of, IFRS may have on the Company's internal accounting system or calculations of figures of the abovementioned sources.

The financial information included in this Offering Memorandum is not intended to comply with the applicable accounting requirements of the U.S. Securities Act and the related rules and regulations of the SEC which would apply if the Notes were being registered with the SEC.

Reportable segments

We report our financial results by segment in accordance with IFRS 8 *Operating Segments.* The regions in which we operate correspond to our reportable segments. For the years ended December 31, 2019, 2020 and 2021, our significant reportable segments were the North Sea and Malaysia operations.

Rounding

Certain numerical figures set out in this Offering Memorandum, including financial information presented in millions and percentages relating to operational data, have been subject to rounding adjustments and, as a result, the totals of the data in this Offering Memorandum may vary slightly from the actual arithmetic totals of such information.

Percentages and amounts reflecting changes over time periods relating to financial and other information set forth in "*Management's discussion and analysis of financial condition and results of operations*" are calculated using the unrounded numerical data in the financial statements or the tabular presentation of other information contained in this Offering Memorandum, as applicable, and not using the numerical data in the narrative description thereof.

Restatements

In the 2021 Audited Group Financial Statements, we have restated certain comparative information for the year ended December 31, 2020. The financial information for the year ended December 31, 2019 has not been restated. For more information on our restatements, see the Note 4 of the Audited Group Financial Statements for 2021 included elsewhere in this Offering Memorandum.

Presentation of rental income

We receive rental income for subleasing space in our corporate offices. Until the 2021 Audited Group Financial Statements, we presented the rental income associated with office subleases within revenue and other operating income in the income statement. Starting with the 2021 Audited Group Financial Statements, we have determined that the revenue derived from this income is not related to our principal activities and should be presented within other income in the income statement. Therefore, we have restated the comparative information for the year ended December 31, 2020 in the 2021 Audited Group Financial Statements, resulting in a $1.8 million reduction in revenue and other operating income and a $1.8 million increase in other income for the year ended December 31, 2020. There is no impact on comparative information for profit/(loss) from operations before tax and finance income/(costs) or earnings per share for the year ended December 31, 2020.

Presentation of our statement of cash flows

Following a review of our primary statements, we have updated the presentation of our statement of cash flows to reconcile to cash and cash equivalents per the balance sheet. For the 2020 Audited Group Financial Statements and before, our statement of cash flows was reconciled to cash and cash equivalents excluding restricted cash. Following this change, the presentation of our statement of cash flows for the year ended December 31, 2020 has been restated in the 2021 Audited Group Financial Statements, which has resulted in a $0.7 million reduction in cash flows from operating activities.

Deferred tax asset restatement

Subsequent to the publication of our 2020 Audited Group Financial Statements and as part of the preparation of 2021 Audited Group Financial Statements, we have determined there was an inconsistency in the calculation of the deferred tax asset recognized on the balance sheet associated with the Magnus contingent consideration (the "**Magnus Contingent Consideration**") and the relevant estimated future cash flows used in the calculation of future taxable profits to support the recognition of this deferred tax asset and the deferred tax asset associated with other available tax losses. This inconsistency resulted in excess deferred tax being derecognized within Remeasurements and exceptional items of $155.9 million with respect to the year ended December 31, 2020. There are no changes to the underlying amounts recognized in relation to contingent consideration or to amounts recognized in respect of deferred tax in earlier periods.

Non-IFRS financial measures

This Offering Memorandum contains non-IFRS measures and ratios, namely Adjusted EBITDA, average unit operating costs ($/boe), cash capex, cash capital and abandonment expense, free cash flow, net debt, total debt, adjusted operating cash flow, adjusted operating cash flow per boe ($/boe), realized oil prices ($/bbl), unit production costs ($/boe), tariff and transportation expenses ($/boe) and total cash and available facilities.

These measures are termed "**non-IFRS**" measures because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. Our management uses these measures when assessing and discussing our financial performance, balance sheet and cash flows.

- "**Adjusted EBITDA**" consists of adjusted business performance profit/loss from operations for the year less tax and finance income/(costs) and adding back depletion, depreciation, change in provision, foreign exchange movements and inventory revaluation. Adjusted EBITDA included in this Offering Memorandum was defined as EBITDA in our annual report and accounts for the years ended December 31, 2019 and 2020. The definition of EBITDA was revised to Adjusted EBITDA in our annual report and accounts for the year ended December 31, 2021 without changing the actual reconciliation to clarify that add backs other than interest, tax, depreciation and amortization were reflected.

- "**Average unit operating costs ($/boe)**" consists of adjusted business performance costs of production and associated tariff and transportation expenses divided by the barrel of oil equivalent produced.

- "**Cash capex**" represents investing activities on a cash basis.

- "**Cash capital and abandonment expense**" represents investing activities on a cash basis (cash capex) plus our cash spend on decommissioning activities.

- "**Free cash flow**" consists of net cash flow adjusted for net repayment/proceeds of loans and borrowing, net proceeds of share issues and the cost of acquisitions.

- "**Total debt**" represents the sum of outstanding borrowings, bonds and non-cash accounting adjustments, including unamortized fees on loans and borrowings and unamortized fees on bonds.

- "**Net Debt**" consists of total debt, excluding lease liabilities, less cash and cash equivalents.

- "**Adjusted operating cash flow**" consists of net cash flows from/(used in) operating activities less cash received from insurance, cash received/(paid) on sale/(purchase) of financial instruments, decommissioning spend, interest paid and repayment of obligations under leases.

- "**Adjusted operating cash flow per boe ($/boe)**" Adjusted operating cash flow divided by the barrel of oil equivalent produced.

- "**Realized oil prices ($/bbl)**" consists of adjusted business performance revenue, which includes realized gains/losses associated with commodity price hedging, divided by the amount of barrels of oil sold.

- "**Tariff and transportation expenses ($/boe)**" consists of adjusted business performance associated tariff and transportation expenses divided by the barrel of oil equivalent produced.

- "**Unit production costs ($/boe)**" consists of adjusted business performance costs of production divided by the barrel of oil equivalent produced.

- "**Total cash and available facilities**" consists of cash and cash equivalents on the balance sheet, including restricted funds and ring-fenced funds held in joint venture accounts, plus amounts available for drawing under our facilities.

We present non-IFRS measures and ratios because we believe that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The non-IFRS measures and ratios may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. Non-IFRS measures and ratios such as Adjusted EBITDA, average unit operating costs, cash capex, cash capital and abandonment expense, free cash flow, net debt, total debt, adjusted operating cash flow, adjusted operating cash flow per boe ($/boe), realized oil prices ($/bbl), unit production costs ($/boe), tariff and transportation expenses ($/boe), total cash and available facilities and average realized prices are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to operating profit/(loss) or profit/(loss) for the year, capital investment, capital expenditure or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities. The financial information contained in this Offering Memorandum, including the non-IFRS measures, are not prepared in accordance with the requirements of the U.S. Securities and Exchange Commission (the "**SEC**") or any other generally accepted accounting principles. The non-IFRS measures have limitations as analytical tools. Some of these limitation are:

- they do not reflect our cash expenditures or future requirements for capital commitments;

- they do not reflect changes in, or cash requirements for, our working capital needs;

- they do not reflect the interest expense or cash requirements necessary to service interest or principal payments of our debt;

- they do not reflect any cash income taxes that we may be required to pay;

- they are not adjusted for all non-cash income or expense items that are reflected in our group income statement;

- they do not reflect the impact of earnings resulting from certain matters we consider to not be indicative of our ongoing operations;
- assets are depreciated or amortized over differing estimated useful lives and often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and
- other companies may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, the non-IFRS measures should not be considered in isolation or as a substitute for performance measures calculated in accordance with IFRS. You should compensate for these limitations by relying primarily on our IFRS results and using these non-IFRS measures only as supplements to evaluate our performance. See "*Summary financial data*," "*Selected financial data*," "*Management's discussion and analysis of financial condition and results of operations*" and our historical group financial statements and the related notes included elsewhere.

For a definition and description of how our non-IFRS measures are calculated from our group results of operations and a reconciliation of Adjusted EBITDA, free cash flow and capital expenditure to our IFRS results presented in this Offering Memorandum, see "*Summary financial data*."

CERTAIN RESERVES AND PRODUCTION INFORMATION

This Offering Memorandum presents information concerning our Reserves as of December 31, 2019, 2020 and 2021 which are audited annually by Gaffney, Cline & Associates Ltd. ("**GaffneyCline**"), and the reserves associated with the Golden Eagle Asset which have been audited by GaffneyCline in connection with the Golden Eagle Acquisition. GaffneyCline is an independent reservoir evaluation company which has prepared its estimates in accordance with resource definitions jointly set out by the Society of Petroleum Engineers ("**SPE**"), the World Petroleum Council, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers ("**SPEE**"), the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts, and the European Association of Geoscientists and Engineers in June 2018 in the "Petroleum Resources Management System" ("**PRMS**"). All reserves information in this document is presented on the basis of SPE-PRMS standards, unless otherwise indicated. Any reference to the 1P or 2P Reserves of our assets in this document is based on the GaffneyCline Year End 2021 Reserves Report (the "**2021 Reserves Report**"), the GaffneyCline Year End 2020 Reserves Report (the "**2020 Reserves Report**") and the GaffneyCline Year End 2019 Reserves Report (the "**2019 Reserves Report**" and together with the 2020 Reserves Report and the 2021 Reserves Report, the "**Reserves Reports**").

Pursuant to the classifications and definitions provided by the PRMS, 1P Reserves are defined as those quantities of oil which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations ("**Proved Reserves**", or "**1P Reserves**"). If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Pursuant to the classifications and definitions provided by the PRMS, 2P Reserves are defined as the sum of Proved Reserves, plus those additional reserves which analysis of geoscience and engineering data indicate as less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves ("**Probable Reserves**" and together with Proved Reserves, "**2P Reserves**"). It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated 2P Reserves.

Pursuant to the classifications and definitions provided by the PRMS, Contingent Resources are those quantities estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. The 2C Contingent Resources represent the "best estimate" scenario (the "**2C Resources**"); there is a probability of at least 50% that the amount actually recovered will equal or exceed the 2C estimate, in the event that the development project goes ahead.

Unless otherwise indicated, all production figures are presented on a net to our working interest basis. Where gross amounts are indicated, they are presented on a total basis—i.e., the actual interest of the relevant license holder in the relevant fields and license areas without deduction for the economic interest of our commercial partners, taxes or royalty interests or otherwise. Our legal interest and effective working interest in the relevant fields and license areas are separately disclosed. See "*Our business—Production and development*." See also "*Our business—Material agreements relating to our assets*" for a more detailed discussion of the terms of the agreements governing our interests.

See also "*Glossary*" for a description of certain oil and gas metrics and terms.

Hydrocarbon data

The Reserves Reports referenced in this Offering Memorandum present the following estimates:

- oil and natural gas liquids in standard millions of barrels ("**MMbbl**") (a barrel being the equivalent of 42 U.S. gallons); and
- natural gas in billions of cubic feet ("**Bscf**") at standard temperature and pressure bases.

This Offering Memorandum presents certain production and reserves-related information on an "equivalency" basis. Our conversion of gas from Bscf into millions of barrels of oil equivalent ("**MMboe**") may differ from the conversion used by other companies. We have assumed a conversion rate for natural gas of 5.8 Bscf to 1 MMboe. This conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalencies at the wellhead. Although this conversion factor is an industry accepted convention, it is not reflective of price or market value differentials between product types.

The information on reserves in this document is based on economic and other assumptions that may prove to be incorrect. Prospective investors should not place undue reliance on the forward-looking statements in this document or on the ability of the information on reserves in this document to predict actual reserves.

Typical to the industry in which we operate, there are a number of uncertainties inherent in estimating quantities of 1P and 2P Reserves. Our reserve information is based on our assessments of our asset base and our opinion as to the reasonableness of such assessments and represents only estimates. Reserve assessment is a subjective process of estimating underground accumulations of oil and natural gas and cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of a number of variable factors and assumptions, many of which are beyond our control, including the quality of available data and of engineering and geological interpretation and judgment assumptions as to oil price. As a result, estimates of different reserve assessors may vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revising the original estimate. Accordingly, due to inherent uncertainties and the limited nature of reservoir data and the inherently imprecise nature of reserve estimates, the initial reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. The significance of such estimates depends primarily on the accuracy of the assumptions upon which they were based. Thus investors should not place undue reliance on the accuracy of the reserves information in this document in predicting the actual reserves or on comparisons of similar estimates/information concerning other companies. In addition, except to the extent that we acquire additional properties containing 1P and 2P Reserves or conduct successful exploration and development activities, or both, our 1P and 2P Reserves will decline as reserves are produced. For a discussion of the risks involving the oil and gas industry and reserves specifically, see "*Risk factors—Risks relating to the oil and gas industry*."

Prospective investors should read the whole of this document for more information on our reserves and the reserves definitions we use.

CURRENCY PRESENTATION AND DEFINITIONS

Currency Presentation

In this Offering Memorandum, all references to "**U.S. dollars**" and "**$**" are to the lawful currency of the United States of America and all references to "**pound sterling**," "**pence**" and "**£**" are to the lawful currency of the United Kingdom. References to "**euro**" or "**€**" are to the single currency of the participating member states of the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

Definitions

Unless otherwise specified or the context requires otherwise in this Offering Memorandum, references to "**EnQuest,**" "**Company,**" "**we**," "**us**," and "**our**" refer to EnQuest PLC, together with its subsidiaries. When such references refer to actions prior to our founding in March 2010, these references refer to the actions of, as applicable, the previous owners of the relevant interests and assets, Petrofac Energy Developments Limited and Lundin Petroleum AB, as applicable.

The following definitions apply throughout this Offering Memorandum, unless the context otherwise requires:

- "**7% Retail Notes**" means the Company's sterling denominated 7.00% fixed rate retail notes due October 15, 2023;
- "**9% Retail Notes**" means the Company's sterling denominated 9.00% fixed rate retail notes due October 27, 2027;
- "**Alba**" means the oil field located in block 16/26a in the UKCS covered by License P.213. See "*Our business—Overview of our UKCS assets—U.K. Upstream—Alba*";
- "**Alma/Galia**" or "**Alma and Galia**" means the oil fields located in blocks 30/24b, 30/24c and 30/25c in the UKCS covered by License P.1825 (for block 30/24b) and License P.1765 (for blocks 30/24c and 30/25c);
- "**BEIS**" means the U.K. Department of Business, Energy and Industrial Strategy;
- "**Bressay**" means the oil field located in the blocks 3/28a, 3/28b, 3/27b, 9/2a and 9/3a in the UKCS covered by Licenses P234, P493, P920 and P977. See "*Our business—Overview of our assets—U.K. Upstream—Bressay*";
- "**CNOOC**" means CNOOC Petroleum Europe Limited, the operator of the Golden Eagle Area Development;
- "**Conrie**" means the oil field located in block 211/18a in the UKCS covered by License P.236. See "*Our business—Overview of our assets—U.K. Decommissioning—The Dons*";
- "**Dons**" or "the Dons" means Don Southwest, West Don, Conrie and Ythan. See "*Our business— Overview of our assets—U.K. Decommissioning—The Dons*";
- "**Don Southwest**" means the oil field located in block 211/18c in the UKCS covered by License P.236. See "*Our business— Overview of our assets—U.K. Decommissioning—The Dons*";
- "**DTC**" means The Depository Trust Company;
- "**€**" means euro;
- "**EQPPM**" means EnQuest Petroleum Production Malaysia Ltd (Registration No. 08497369), a company incorporated in England & Wales and having its registered address at 5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom;
- "**EURIBOR**" means Euro Interbank Offered Rate;
- "**European Economic Area**" or "**EEA**" means the trading area established by the European Economic Area Agreement of January 1, 1994;

- "**Existing Senior Notes**" means the Company's 7% senior notes due 2023 with an aggregate principal amount of $650,000,000;

- "**FSMA**" means the Financial Services and Markets Act 2000, as amended;

- "**£**" means pound sterling;

- "**GaffneyCline**" means Gaffney, Cline & Associates Ltd, independent international energy advisory company;

- "**GaffneyCline Reports**" means the reports prepared by GaffneyCline dated March 2020, March 2021 and March 2022 on our reserves as of December 31, 2019, December 31, 2020 and December 31, 2021, respectively;

- "**Golden Eagle**" means the private limited company named North Sea (Golden Eagle) Resources Ltd. with company number 13148646 and with registered office address at 5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom;

- "**Golden Eagle Acquisition**" means the acquisition by us of Golden Eagle, which was completed on October 22, 2021;

- "**Golden Eagle Area Development**" means the area comprising the Golden Eagle, Peregrine and Solitaire fields located in the Golden Eagle Area Licenses;

- "**Golden Eagle Area Licenses**" means the United Kingdom Petroleum Production License P300 Block 14/26a and the United Kingdom Petroleum Production License P928 Block 20/1a North;

- "**Golden Eagle Asset**" means the 26.7% non-operated working interest in the Golden Eagle Area Development;

- "**Greater Kittiwake Area**" or "**GKA**" means the oil fields located in UKCS blocks 21/12a, 21/18a, 21/19a and 21/19b. See "*Our business—Overview of our UKCS assets—U.K. Upstream—Greater Kittiwake Area (GKA)*";

- "**Guarantors**" means, collectively, EnQuest Heather Limited, EnQuest Heather Leasing Limited, EnQuest ENS Limited, EnQuest Britain Limited, EQ Petroleum Sabah Ltd, EnQuest Production Limited, EnQuest NWO Limited, EnQuest Global Limited, EnQuest Advance Limited, EnQuest Petroleum Production Malaysia Ltd, North Sea (Golden Eagle) Resources Ltd., NSIP (GKA) Limited, EnQuest Marketing and Trading Limited, EnQuest Petroleum Developments Malaysia Sdn. Bhd., and EnQuest Advance Holdings Limited;

- "**Guarantee Subordination Agreement**" means the subordination agreement dated April 9, 2014 between, among others, the Company and BNP Paribas (as senior facility agent and security trustee) as amended, novated, supplemented, extended and/or restated from time to time;

- "**Heather/Broom**" means the oil fields located in blocks 2/5 and 2/4a in the UKCS covered by License P.242 and P.902, respectively;

- "**Indenture**" has the meaning given to such term in "*Description of Notes*";

- "**International Accounting Standards**" means the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB);

- "**Kinneil Oil Terminal**" means the oil stabilization and gas separation plant which represents the end of the Forties Pipeline System;

- "**Kraken**" means the oil fields located in block 9/2b in the UKCS covered by License P.1077. See "*Our business— Overview of our UKCS assets—U.K. Upstream—Kraken*";

- "**KUFPEC**" means Kuwait Foreign Petroleum Exploration Company;

- “**London Stock Exchange**” or “**LSE**” means London Stock Exchange plc;

- “**Magnus**” means the oil fields located 160 kilometers northeast of the Shetland Islands, mainly in block 211/12a and 211/7a covered by license P.193. See “*Our business—Overview of our UKCS assets—U.K. Upstream—Magnus*”;

- “**OECD**” means The Organisation for Economic Co-operation and Development;

- “**Offering**” means the issuance of the Notes offered hereby;

- “**OPEC**” means Organization for Petroleum Exporting Countries;

- “**PSC**” means a production sharing contract, which is a type of host state-investor agreement which entitles the investor (the contractor) to develop a petroleum field for a fixed term;

- “**RBL Facility**” means the facility made available under the RBL Facility Agreement;

- “**RBL Facility Agreement**” means the secured revolving borrowing base facility agreement dated as of June 10, 2021, entered into between, among others, the Company, as obligor, and BNP Paribas, as agent and security agent, as amended from time to time and, as the context requires, as most recently amended and restated prior to the Issue Date in connection with the Transactions. See “*Description of certain financing arrangements—RBL Facility*”;

- “**Refinancing**” means the use of proceeds from the Offering, together with cash on balance sheet, to redeem the aggregate principal amount of the Existing Senior Notes;

- “**Scolty/Crathes**” means the oil fields located in blocks 21/12c, 21/13a and 21/8a in the UKCS covered by License P.1617 (blocks 21/12c and 21/13a) and License P.1107 (block 21/8a). See “*Our business—Overview of our UKCS assets—U.K. Upstream—Scolty/Crathes*”;

- “**SEC**” means U.S. Securities and Exchange Commission;

- “**Stockholm Stock Exchange**” means NASDAQ OMX Stockholm;

- “**SVT Working Capital Facility**” means the revolving loan facility entered into by EnQuest Heather Limited with BNP Paribas in, among others, its capacity as lender for an aggregate amount of £42.0 million dated December 1, 2017, as novated and amended on December 1, 2018 and further amended on November 25, 2020 and January 3, 2022;

- “**Thistle/Deveron**” means the oil fields located in blocks 211/18a and 211/19a in the UKCS covered by License P.236 and P.475, respectively;

- “**Transactions**” means collectively, the Offering, the Refinancing and the amendment of the RBL Facility;

- “**U.K. Corporate Governance Code**” means the U.K. Corporate Governance Code published by the Financial Reporting Council;

- “**U.K. Regulator**” means until March 20, 2022 the Oil and Gas Authority (“**OGA**”) and thereafter the North Sea Transition Authority (“**NSTA**”);

- “**UKCS**” means United Kingdom Continental Shelf;

- “**United Kingdom**” or “**U.K.**” means the United Kingdom of Great Britain and Northern Ireland;

- “**United States**” or “**U.S.**” means United States of America;

- “**U.S. Securities Act**” means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;

- “**West Don**” means the oil field located in block 211/18b in the UKCS covered by License P.236. See “*Our business— Overview of our UKCS assets—U.K. Decommissioning—The Dons*”; and

- "**Ythan**" means the oil field located in blocks 211/18e and 211/19c in the UKCS covered by License P2137. See "*Our business— Overview of our UKCS assets—U.K. Decommissioning—The Dons*."

PRESENTATION OF INDUSTRY AND MARKET DATA

In this Offering Memorandum, we rely on and refer to information regarding our business and the markets in which we operate and compete. The market data and certain economic and industry data and forecasts used in this Offering Memorandum were obtained from governmental and other publicly available information, independent industry publications and reports prepared by industry consultants, including:

- Offshore Energies U.K. (formerly known as Oil & Gas U.K., a non-profit organization and the leading representative body for the U.K. offshore oil and gas industry, whose members comprise oil and gas companies with active operations in the UKCS);
- North Sea Transition Authority (formerly known as U.K. Oil & Gas Authority);
- U.K. Department of Energy and Climate Change;
- EMIS;
- European Commission;
- HM Treasury;
- International Commodities Exchange;
- International Monetary Fund;
- International Energy Agency;
- Organization of the Petroleum Exporting Countries (OPEC);
- U.K. House of Commons Library;
- U.S. Energy Information Administration; and
- BP.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that there can be no assurance as to the accuracy and completeness of such information. We believe that these industry publications, surveys and forecasts are reliable, but we have not independently verified any of the data from third party sources. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and uncertainties as the other forward-looking statements in this Offering Memorandum.

We cannot assure you that any of the assumptions underlying any statements regarding the oil and gas industry are accurate or correctly reflect our position in the industry. Market data and statistics are inherently predictive and speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that (i) the markets are defined differently, (ii) the underlying information was gathered by different methods and (iii) different assumptions were applied in compiling the data. Accordingly, the market statistics included in this Offering Memorandum should be viewed with caution and no representation or warranty is given by any person, including us and the Initial Purchasers, as to their accuracy.

Elsewhere in this Offering Memorandum, statements regarding the oil and gas industry are not based on published statistical data or information obtained from independent third parties, but are based solely on our experience, our internal studies and estimates, and our own investigation of market conditions. We cannot assure you that any of these studies or estimates are accurate, and none of our internal surveys or information have been verified by any independent sources. While we are not aware of any misstatements regarding our estimates presented herein, our estimates involve risks, assumptions and uncertainties and are subject to change based on various factors. See “*Risk factors*” and “*Our business*” in this Offering Memorandum for further discussion.

SUMMARY

This summary highlights certain information about our business and the Offering described elsewhere in this Offering Memorandum. This summary is not complete and does not contain all the information you should consider before investing in the Notes. This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information included in this Offering Memorandum, including our Audited Group Financial Statements, and the related notes thereto.

The reserves and resources data presented in this section have been estimated in accordance with PRMS guidelines and definitions. Estimated reserves and resources presented herein may differ from estimates made in accordance with guidelines and definitions used by other companies in the industry or by the SEC. See "Certain reserves and production information." Unless otherwise indicated, all production figures are presented on a net working interest basis. Where gross amounts are indicated, they are presented on a total basis—i.e., the actual interest of the relevant license holder in the fields and license areas without deduction for the economic interest of other participants, taxes or royalty interests or otherwise. Our legal interest and effective working interest in the relevant fields and license areas are separately disclosed. See "Our business—Production and development." See also "Our business—Material agreements relating to our assets" for a more detailed discussion of the terms of the agreements governing our interests.

You should read carefully the entire Offering Memorandum to understand our business, the nature and terms of the Notes and the tax and other considerations which are important to your decision to invest in the Notes, including the risks discussed under the caption "Risk factors" and "Management's discussion and analysis of financial condition and results of operations."

Overview

We are a significant independent U.K. oil and gas producer operating in the U.K. North Sea and Malaysia. As of June 30, 2022, we had interests in 19 U.K. production licenses, 15 of which we operate, covering 26 blocks or part blocks in the UKCS. In January 2021, we acquired a 40.8% operating interest in the Bressay oil field; in July 2021, we acquired a 100.0% working interest in the P1078 license containing the Bentley heavy oil discovery; and in October 2021, we completed the acquisition of a 26.7% non-operated working interest in the Golden Eagle Asset, all in the U.K. North Sea. We also have interests in two licenses in Malaysia, both of which we operate.

Our average daily production on a working interest basis for the six months ended June 30, 2022 was 49,726 boepd, which included an average daily production on a working interest basis of 7,060 boepd from the Golden Eagle Asset. Since our inception, we have increased our net 1P and net 2P Reserves to 141 MMboe and to 194 MMboe (including the 1P and 2P Reserves from the Golden Eagle Asset), respectively, as of December 31, 2021 from 36 MMboe and 81 MMboe, respectively, as of January 1, 2010, representing a compound annual growth rate for 2P Reserves of approximately 7.5% per annum and representing a reserves replacement ratio of approximately 1.7x. During the period from January 1, 2010 to December 31, 2021, we added net 2P Reserves of 273 MMboe and our production was 160 MMboe. Approximately 90% of our 2P Reserves are located in fields operated by us as well as located in fields in the U.K. North Sea. As of December 31, 2021, our assets had a reserve life of 12 years and a resource life of 25 years, compared to an estimated average reserve life of 10 years and an estimated average resource life of 7 years for selected peers.

Our producing assets generated revenue and other operating income, gross profit/(loss) and Adjusted EBITDA of $1,623.3 million, $462.9 million and $933.7 million, respectively, in the twelve months ended June 30, 2022. In the six months ended June 30, 2022, our average unit operating costs were $22.7/boe.

We were founded in 2010 through a combination of Petrofac Energy Developments Limited ("**PEDL**") and certain assets of Lundin Petroleum AB ("**Lundin**"). We purchased PEDL and the UKCS assets of Lundin in exchange for stock. Following our initial public offering in April 2010, our shares are listed and trade on both the London Stock Exchange and the NASDAQ OMX Stockholm. As of September 8, 2022, our market capitalization was approximately $678.0 million based on the Bloomberg Composite Rate (London) pounds sterling/US dollar exchange rate of $1.16 per £1.00. In 2014, we diversified our geographical footprint through acquiring initial production licenses in Malaysia.

We believe that our operational and commercial capabilities and experienced technical staff and management have allowed us to grow production, Reserves and Resources since 2010 profitably. We further believe that in the UKCS, Malaysia, and potentially other geographic regions we have, and will continue to have, substantial opportunities for acquisitions and development through low-cost, near-field drilling and subsea tie-back projects, while maintaining a focus on the health, safety and environmental impacts of our operations. Most of our existing assets are located in the UKCS in the North Sea. We also have interests in licenses in Malaysia. See "*Risk factors— Risks relating to our business—All of our production comes from a small number of offshore assets in the UKCS and Malaysia, making us vulnerable to risks associated with having significant production in two countries and only a small number of assets*."

One of our top priorities is to achieve and maintain high health, safety and environmental performance. We believe that we have robust management systems, a culture of positive engagement and a commitment to continuous improvement. We are committed to respecting the people and environments that our business may affect, and we aim to operate our business to achieve safe results, with no harm to people or the environment. To achieve this, we aim to manage our business in compliance with legislation and industry standards, maintain high-quality systems and processes and seek to maintain safe and healthy workplaces. For more information on our health, safety, environment and assurance policies, see "*Our business—Health, safety, environment and assurance*."

UKCS

The U.K. North Sea business consists of three directorates:

U.K. Upstream*: Kraken, Magnus, Golden Eagle, Greater Kittiwake Area, Scolty/Crathes, Alba, Bressay and Bentley*

The U.K. Upstream producing assets are characterized by their high production and operating efficiency. Our strategy is focused on reservoir management and resource development. In the six months ended June 30, 2022, daily average net production in the U.K. Upstream directorate was 43,422 Boepd, representing 87.3% of our total daily average net production for that period.

Infrastructure and New Energy*: Sullom Voe Terminal (*"**SVT**"*) and pipelines*

The Infrastructure and New Energy business remains focused on the delivery of safe and reliable operations while progressing renewable energy and decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen, by repurposing the existing infrastructure at SVT and connected offshore infrastructure. Having secured exclusivity from the Shetland Islands Council to progress new energy opportunities at SVT, we believe we are well placed to deliver on our new energy ambitions in cooperation with our potential strategic delivery partners and are currently exploring strategic operational and financial partnerships.

U.K. Decommissioning*: Heather/Broom, Thistle/Deveron, Alma/Galia and the Dons*

The U.K. Decommissioning operations manage end of field life decommissioning programs for assets that have already, or are about to cease production.

Malaysia

We also have producing assets located in Malaysia, PM8/Seligi and a non-producing interest in Block PM409, where we work to continue to better understand and ultimately rank the prospects in the block in order to identify suitable drilling opportunities with the intention of future development. In the six months ended June 30, 2022, daily average net production in Malaysia was 6,304 boepd, representing 12.7% of our total daily average net production for that period.

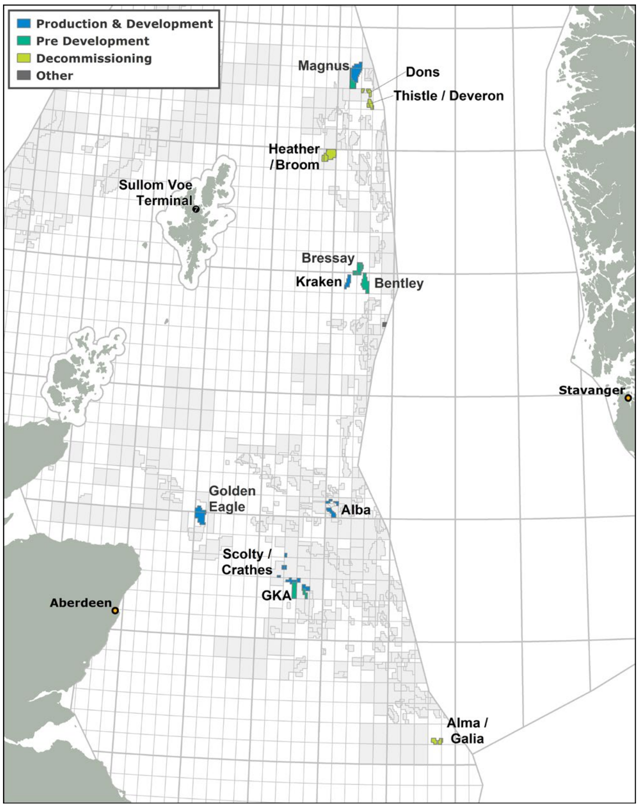
Working interest in producing assets

We typically seek to hold a significant working interest in our producing assets and developments, with 100.0% at Magnus, 70.5% at Kraken, 50.0% at GKA, 50.0% at Scolty/Crathes, 40.8% at Bressay, 26.7% at Golden Eagle and 100.0% at Bentley. In Malaysia, we hold a 50.0% working interest in PM8/Seligi and an 85.0% working interest in Block PM409.

Through ownership, holding a significant working interest and active participation rights, we are better able to shape the development plan of an asset and influence the timing and method of the extraction of resources than we would be able to if we were passive partners in our fields. As of June 30, 2022, we had ownership interests in 19 producing licenses, 15 of which were operated and 4 of which were partner-operated. In the six months ended June 30, 2022, 84.7% of our production was from operated assets while 15.3% was from partner-operated assets. We thus have a significant degree of control over the timing and magnitude of operating and capital expenditures for most of our assets. We have the right and obligation under each joint operating agreement to which each asset is a party to take delivery of our share of production from each field for onward sale to third parties of our choice. Furthermore, in relation to crude oil, each field temporarily stores production either at the field (such as onboard an FPSO) or at a terminal (such as the SVT). This gives each field owner the ability to accumulate a marketable volume of cargo, which is firstly allocated in full to the field owner with the highest proportionate share of the total stored volume at the time a full cargo accumulates in the first instance. By mutual agreement, field owners may pool their production under a joint operating agreement in order to share in cargoes. We have full discretion over the marketing of our attributable volumes across our portfolio and, in relation to assets in which we hold a minority, non-operated stake such as Alba and the Golden Eagle Asset, we market our attributable volumes independently of our partners in each field. We market our attributable volumes independently from our field partners to enable us to best leverage our proprietary trading capabilities and substantial industry know-how.

We believe that our existing assets with the highest remaining production potential are Kraken, Magnus, Golden Eagle and PM8/Seligi. We are also the operator of three of these assets, with the exception of the Golden Eagle Asset. There are also material Reserves and Contingent Resources within Kraken, Magnus and PM8/Seligi assets that we believe can be accessed through short-cycle low-cost drilling and subsea tie-back projects. The 2021 acquisitions of approximately 115 MMbbls of net 2C Resources associated with our operating interest in Bressay and 131 MMbbls of net 2C Resources associated with our operating interest in Bentley provide significant long-term, low-risk production opportunities that have similarities to our Kraken field. Kraken, Magnus, other U.K. fields and fields located in Malaysia have 33 MMboe, 34 MMboe, 3 MMboe and 86 MMboe of net 2C Resources, respectively.

The following map sets forth the locations of our assets in the UKCS.



The following table sets forth the net daily average production on a working interest basis for each of our producing UKCS operations and Malaysian operations for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and June 30, 2022:

Region	Working interest	Net daily average production (boepd) For the year ended December 31, 2019	2020	2021	For the six months ended June 30, 2021	2022
U.K. Upstream	—	**49,083**	**50,334**	**39,220**	**41,041**	**43,422**
Kraken	70.5	25,172	26,450	21,964	23,690	19,527
Magnus	100.0	18,267	17,416	11,870	13,847	12,754
Golden Eagle(1)	26.7	—	—	1,701	—	7,060
GKA(2)	50.0	1,961	1,257	485	229	1,168
Scolty/Crathes	50.0	2,848	4,561	2,610	2,678	2,395
Alba	8.0	835	650	590	597	518
Bentley	100.0	—	—	—	—	—
Bressay	40.8	—	—	—	—	—
U.K. Decommissioning		**10,870**	**2,346**	**167**	**337**	**—**
Heather/Broom(3)	—	1,855	—	—	—	—
Thistle/Deveron(3)	—	4,111	—	—	—	—
Alma/Galia(4)	—	1,900	714	—	—	—
The Dons(5)	—	3,005	1,632	167	337	—
Malaysia		**8,653**	**6,436**	**5,028**	**4,809**	**6,304**
PM8/Seligi	50.0	8,579	6,436	5,028	4,809	6,304
Tanjong Baram(6)	70.0	74	—	—	—	—
Total		**68,606**	**59,116**	**44,415**	**46,187**	**49,726**

Notes:

(1) For the year ended December 31, 2021, the Golden Eagle net daily average production reflects the contribution from the date we completed the acquisition, October 22, 2021, to December 31, 2021, averaged over the 12 months to the end of December.

(2) GKA production is split across four fields, Kitiwake (50.0% working interest), Mallard (50.0% working interest) and Grouse and Gadwall (50.0% working interest).

(3) Production has been shut since October 2019 with formal cessation of production in the second quarter of 2020.

(4) Ceased production in June 2020.

(5) Ceased production in March 2021.

(6) Following two consecutive quarters of allocated revenue being below operating expenditures, the Tanjong Baram field was deemed uneconomic and we issued a termination notice under the terms of the Tanjong Baram Small Field Risk Service Contract. The Tanjong Baram Small Field Risk Service Contract was terminated on March 3, 2020.

Reserves & contingent resources

The following table sets forth the 1P Reserves, 2P Reserves and 2C Resources as of the years ended December 31, 2019, 2020 and 2021.

	As of December 31, 2019	2020(1)	2021(2)
1P Reserves			
Oil (MMbbl)	133	115	133
Gas (Bscf)(3)	44	49	50
Total 1P Reserves (MMboe)	**140**	**123**	**141**
2P Reserves			
Oil (MMbbl)	201	178	182
Gas (Bscf) (4)	68	64	69
Total 2P Reserves (MMboe)	**213**	**189**	**194**
2C Resources			
Oil (MMbbl)	134	238	359
Gas (Bscf)	237	249	262
Total 2C Resources (MMboe)	**173**	**279**	**402**

(1) For the year ended December 31, 2020, 2C Resources includes 115 MMbbls associated with the completion of the Bressay acquisition in January 2021.

(2) For the year ended December 31, 2021, 1P Reserves, 2P Reserves and 2C Resources include the net oil and gas reserves associated with the Golden Eagle acquisition which we closed on October 22, 2021.

(3) For the years ended December 31, 2019, 2020 and 2021, 1P gas reserves included 34.2 Bscf used for fuel and 10.1 Bscf used for sales, 32.8 Bscf used for fuel and 16.0 Bscf used for sales and 40.2 Bscf used for fuel and 9.7 Bscf used for sales, respectively.

(4) For the years ended December 31, 2019, 2020 and 2021, 2P gas reserves included 41.5 Bscf used for fuel and 26.9 Bscf used for sales, 38.6 Bscf used for fuel and 25.5 Bscf used for sales and 47.8 Bscf used for fuel and 21.5 Bscf used for sales, respectively.

Strengths

We believe that the combination of our high-quality asset portfolio, operational scale and financial strength, will position us to deliver on our strategy and take advantage of production and development opportunities in the U.K. North Sea and beyond.

High-quality, operated asset base in developed petroleum markets with material upside and well positioned to benefit from the strong commodity price outlook

We have an attractive portfolio of operated producing and non-producing assets primarily located in the U.K. North Sea. We are the operator at fields comprising 84.7% of our average daily production as of June 30, 2022, constituting all but two of our fields, which provides us with significant influence over capital expenditures, development and production, environmental, social and governance initiatives as well as relevant appraisal activities. Operatorship of our assets also facilitates strong control over cost management, enabling us to moderate expenditures as appropriate throughout the economic cycle. At Magnus, we successfully returned two wells to service in the first half of 2022 and also successfully drilled and logged the North West infill well in late July. At Golden Eagle, the joint venture has approved a two infill well drilling campaign to commence at the end of the third quarter of 2022, with first oil expected around the end of the first quarter of 2023. In Malaysia, we completed four planned workovers and have also successfully executed a three well plug and abandonment ("**P&A**") campaign during the first half of the year. For 2023, we have sanctioned a three infill well drilling program in Malaysia, in alignment with the established asset strategy, which is a part of our plan to fully optimize recovery of the significant remaining oil and gas resources.

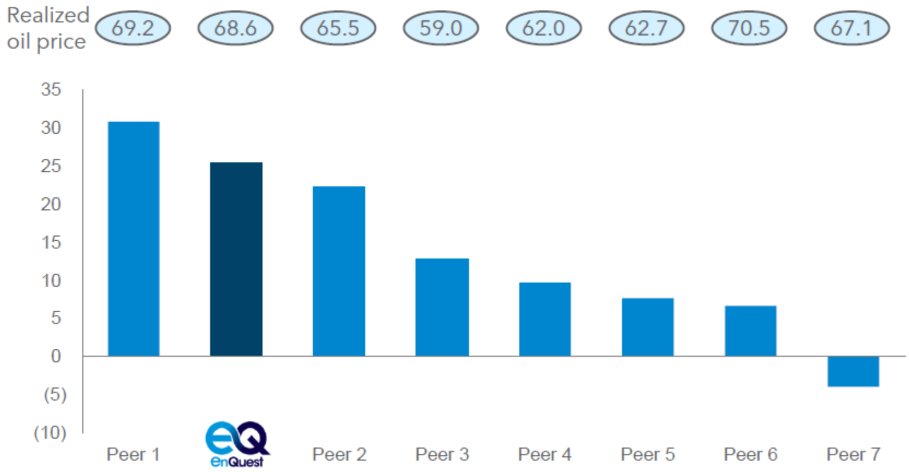
A large portion of our portfolio consists of long-life assets that are oil-weighted providing material upside and positioning us to benefit from the strong commodity price outlook. As of December 31, 2021, our assets had a reserve life of 12 years and a resource life of 25 years and we had 194 MMboe of 2P Reserves, of which 174 MMboe are located in the UKCS and 20 MMboe are located in Malaysia, and 402 MMboe 2C Resources, of which 316 MMboe are located in the UKCS and 86 MMboe are located in Malaysia. We believe that the continued focus on established jurisdictions with developed petroleum markets, such as the U.K., provide us with an attractive operating environment highlighted by a stable and consistent regulatory regime and fiscal environment.

Strong, resilient free cash flow generation that facilitates both reinvestment and deleveraging, aided by attractive fiscal dynamics

We generated Adjusted EBITDA of $933.7 million and $536.3 million during the twelve months ended June 30, 2022, and the six months ended June 30, 2022, respectively, with a reinvestment ratio of 47% for the twelve months ended June 30, 2022 and 13% for the six months ended June 30, 2022. We calculate reinvestment ratio as cash capex plus acquisitions divided by Adjusted operating cash flow. Our Adjusted operating cash flow for the six months ended June 30, 2022 was $406.6 million. We also generated an Adjusted operating cash flow per boe for the six months ended June 30, 2022 of $45.2/boe and free cash flow per boe of $36.9/boe. During the six months ended June 30, 2022, our strong free cash flow generation enabled us to make a $300 million early voluntary repayment of the RBL Facility and a further $25 million repayment between June 30, 2022 and the end of August 2022. On September 21, 2022, we repaid $90.4 million of the RBL Facility representing the outstanding amount and including $0.4 million of accrued and unpaid interest.

We generated Adjusted EBITDA of $1,006.5 million, $550.6 million and $742.9 million during the years ended December 31, 2019, 2020 and 2021, respectively, resulting in strong and resilient free cash flow generation that facilitated both reinvestment and deleveraging, aided by attractive fiscal dynamics. As a result, our reinvestment ratio was 34%, 34% and 58% during the years ended December 31, 2019, 2020 and 2021. Our Adjusted operating cash flow for the years ended December 31, 2019, 2020 and 2021 was $687.4 million, $390.8 million and $539.8 million, respectively, improving significantly since 2015. We also generated an Adjusted operating cash flow per boe for the years ended December 31, 2019, 2020 and 2021 of $27.4/boe, $18.1/boe and $33.3/boe, respectively, and free cash flow per boe for the years ended December 31, 2019, 2020 and 2021 of approximately $15/boe, $10/boe and $24/boe, respectively. Our strong cash flow performance during the periods under review enabled us to refinance and repay certain of our indebtedness leading to a simplified capital structure, with a lower than expected utilization and enabled the payment of $249.7 million cash consideration in connection with the Golden Eagle acquisition.

The table below shows free cash flow per barrel of oil equivalent for the Company and certain selected peers. For comparability purposes, in the below table free cash flow per barrel of oil equivalent is defined as operating cash flows (calculated as EBITDA less cash interest paid, cash taxes paid and lease expenses) less capital expenditure and abandonment expenditure over production. This differs from how we present free cash flow elsewhere in this Offering Memorandum. See "*Presentation of financial and other information—Non-IFRS Measures*" and "*—Summary financial data—Other financial data and key ratios*."



Source: Company information and selected peer annual reports. Peers include Aker BP, DNO, Harbour, Kosmos, Lundin, Neptune, Seplat and Tullow. The information included in the table above is as per relevant company reporting for the year ended December 31, 2021. For comparability purposes, in the above table free cash flow per barrel of oil equivalent is defined as operating cash flows (calculated as EBITDA less cash interest paid, cash taxes paid and lease expenses) less capital expenditure and abandonment expenditure over production. This differs from how we present free cash flow elsewhere in this Offering Memorandum. For more information on our definition of Free cash flow, See "*—Summary financial data—Other financial data and key ratios.*"

We believe our existing capital structure, as well as the Transactions, provide us with scope for further deleveraging in 2023 and beyond, particularly in light of the current strength of oil prices.

We also have an active hedging strategy that provides predictability of cash flows and enables resilient cash flows even at lower oil prices. As of June 30, 2022, we have hedged a total of approximately 3.4 MMbbls and approximately 3.5 MMbbls for the six months ended December 31, 2022 and June 30, 2023, respectively, with an average floor price of approximately $60/bbl and approximately $57/bbl, respectively, and an average ceiling price of approximately $79/bbl and $77/bbl, respectively.

In addition, we continue to have unrestricted access to our U.K. North Sea corporate tax losses, subject only to generating suitable future profits, which at June 30, 2022 were $2,627.7 million (December 31, 2021: $3,011.0 million). Ring Fence Expenditure Supplement on UK activities, which would have historically provided an offset to the U.K. tax charge, ceased to be available to claim from the end of 2021. Following the Transactions, we believe that our capital structure, as well as predictable cash flows due to our hedging strategy, will provide us with the financial flexibility to implement our strategy and, in turn, continue increasing our cash flows.

Proven operational and safety track record with significant in-house technical and operating experience

Our in-house technical and operations teams underpin our development and operations-focused strategies. We are differentiated from our peers by the breadth and depth of these teams, their knowledge and experience in engineering, subsurface, execution and operations and our leadership in innovative integrated developments, such as the integration of Magnus. We have a spectrum of integrated technical capabilities, combining subsurface, facilities planning and drilling, providing us with the right mix of capabilities to deliver successfully new oil field developments and strong production from producing assets in maturing basins. Our combination of technical capabilities has competitive levels of drilling, production efficiency and Scope 1 and 2 emission reductions while extending field life and delivering cost efficient decommissioning.

In the years ended December 31, 2020 and 2021, we achieved excellent levels of production efficiency and high operational uptimes at Kraken, achieving 87% and 88% production efficiency, respectively, compared to 2021 UKCS average production efficiency of 72% for floating hubs, according to the North Sea Transition Authority, a top quartile position in the Oil & Gas Authorities rankings. In the six months ended June 30, 2022, production and water injection efficiency at Kraken were 92% and 95%, respectively. Similarly GKA achieved strong uptime at 92% in the six months ended June 30, 2022, with the 11-day planned shutdown completed three days ahead of schedule. Production efficiency was also strong at Golden Eagle in the six months ended June 30, 2022 achieving 95%, including an optimized shutdown which was executed in two days instead of four.

Our technical and operating experience enabled a reduction in our unit operating costs at Magnus from a budgeted unit operating costs of more than approximately $60/boe in the year ended December 31, 2015 to an average of less than $24/boe for the years ended December 31, 2019, 2020 and 2021, representing a reduction in average unit operating expenditure of approximately 60% between 2015 and the average unit operating expenditure for the years ended December 31, 2019, 2020 and 2021 at Magnus. Similarly, at PM8/Seligi in Malaysia, we were able to lower our unit operating costs from approximately $30/boe in the year ended December 31, 2014 to an average of approximately $20/boe in the years ended December 31, 2019, 2020 and 2021, representing a reduction in average unit operating expenditures of approximately 32% between 2014 and the average unit operating expenditure for the years ended December 31, 2019, 2020 and 2021.

Our operational expertise also enabled us to achieve a lost time incident frequency ("**LTI**") of nil for the Group in the six months ended June 30, 2022 and 0.21 in the year ended December 31, 2021 compared to 1.28 in the year ended December 31, 2015.

We believe that our management has demonstrated that it has differentiated project management and execution capabilities and that this has led to innovative, fast and cost efficient development of challenging hydrocarbon assets. For example, the development of Kraken was completed approximately $1.0 billion under the budget due to our strong capabilities in control of our operational and capital expenditures. Additionally, we believe that our technical leadership position should allow us to continue attracting talent in a competitive market.

Prudent capital allocation and conservative financial policies focused on deleveraging and risk mitigation

Our prudent capital allocation and financial policies are focused on deleveraging and risk mitigation. Balance sheet strength, active management of capital structure and financial discipline continue to remain our key priorities. Our active hedging strategy also enables resilient cash flows, even at lower oil prices. For example, we have repaid certain of our indebtedness leading to a more simplified capital structure and reduced our RBL Facility borrowing by $325 million in the period from January 1, 2022 to August 31, 2022. Additionally, on September 21, 2022, we repaid $90.4 million of the RBL Facility representing the outstanding amount and including $0.4 million of accrued and unpaid interest.

In addition, we believe that we benefit from having limited decommissioning obligations as compared to our working interests. We aim to keep our decommissioning obligations to a minimum and will only take on further decommissioning obligations on a case-by-case basis, where appropriate.

We employ a rigorous framework for all M&A that we believe delivers value accretive acquisitions, including the BP-Magnus transaction and more recently the Golden Eagle acquisition, which re-weights our portfolio to mid-life assets. We expect the Golden Eagle acquisition to generate significant value enhancement in excess of $100.0 million NPV(10) at a long-term oil price of $50/bbl, primarily related to accelerated use of our tax losses compared to a collective purchase price of $325.0 million.

Sector-leading ESG delivery with business model that is strongly positioned to play an important role in the energy transition

We believe we have a strong business model that is well-positioned to play an important role in the energy transition, by delivering sector-leading environmental, social and governance ("**ESG**") metrics, responsibly optimizing production, leveraging existing infrastructure, delivering strong decommissioning performance and exploring new energy and further decarbonization opportunities.

We have achieved U.K. Scope 1 and 2 emissions reduction of approximately 44% in 2021 as compared to 2018 levels, significantly ahead of U.K. Government's North Sea Transition Deal target of a 10% reduction by 2025, a 25% reduction by 2027 and close to the 50% reduction targeted by 2030. On a group-wide basis we have also made progress in materially reducing emissions, with total Scope 1 and 2 CO_2 equivalent emissions reduced by approximately 15% as compared to 2020 levels. We are continuing to pursue contributions to Scope 3 emission reductions on certain UKCS assets. In addition, through our Infrastructure and New Energy segment, we have also been evaluating repurposing opportunities in the medium-term, including the Sullom Voe Terminal, pipelines and underground reservoirs, to facilitate potential electrification, hydrogen and carbon capture and storage initiatives. Initial feasibility studies have indicated existing infrastructure and storage sites are capable of housing up to 10 million tonnes per annum of CO_2. In May 2022, we made two carbon capture and storage ("**CCS**") license area nominations in locations which are both accessible from our existing infrastructure. These were both accepted and we made two applications in respect of these license areas in the North Sea Transition Authority ("**NSTA**") UK offshore CCS licensing round, which closed on September 13, 2022 with results expected to be announced in the first quarter of 2023. We have linked certain ESG targets as a key performance metric in our 2021 and 2022 long-term incentive scheme for executive directors and applicable employees and it is also linked to appropriate targets within our short-term incentive plan. In addition, we are broadly in line with the Women Leaders Review target of 40% female board representation, with 33% female representation currently on the board and are ahead of the Parker review target with respect to minority ethnic representation with four minority board members in contrast to the established target of one.

Experienced management team with proven track record of value delivery

Our board of directors and senior management team have a significant amount of experience in the energy, oil and gas industries. Additionally, our leadership team features individuals with extensive, diverse experience that we believe is vital to managing a company that identifies value-creating opportunities in maturing oil field assets. We believe that our leadership team has the varied experience and proven track record in the oil and gas industry necessary to provide a strong platform to deliver long-term growth and identify new production and development opportunities.

Our management team has a proven track record of adding value organically by lowering costs, enhancing production efficiency, extending field life and deferring decommissioning. Since our initial public offering in 2009, under the direction of our management team annual production has increased at a compound annual growth rate of approximately 10%. Between the year ended December 31, 2015 and the twelve months ended June 30, 2022, under the direction of our management team we have improved production from approximately 36.6 Kboepd to approximately 46.3 Kboepd, a 26.5% improvement. Over the same period, we have reduced our unit operating costs from $29/boe in the year ended December 31, 2015 to approximately $22.3/boe in the twelve months ended June 30, 2022, a 23.1% reduction. At the same time, management has been able to strengthen the balance sheet reducing net leverage from 3.3x in 2015 to 0.9x as of June 30, 2022, a 72.7% reduction.

Strategies

We aim to remain one of the U.K.'s leading independent oil and gas production and development companies with a focus on energy security, sustainability and the energy transition. We operate a production-based portfolio with exposure predominantly to the established hydrocarbon basin of the UKCS. We intend to deliver sustainable growth by focusing on exploiting our existing reserves, commercializing and developing discoveries, converting our significant Contingent Resources into reserves and pursuing selective acquisitions. In addition, our Infrastructure and New Energy segment will continue to assess renewable energy and decarbonization opportunities that would leverage existing infrastructure. We are developing cost-effective and efficient plans to transform the Sullom Voe terminal and prepare and repurpose the site to progress decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen.

Continued operational excellence with a focus on ESG and Sustainability

We have a strong track record for conducting our operations in a safe and environmentally responsible manner and seek to maintain high safety standards. As an oil and gas company, safely improving the operating, financial and environmental performance of mature and late-life assets will remain a key focus. Our highly skilled and integrated teams strive to enhance hydrocarbon recovery through focused improvement programs with the aim of ensuring employee safety is a top priority and limiting the effects of climate change.

We recognize that industry, along with other key stakeholders such as governments and regulators must contribute to reducing the impact on climate change of carbon-related emissions. We are committed to playing our part in achieving national emissions reduction targets and the drive to "net-zero", with the Infrastructure and New Energy segment having overall responsibility for delivering our emission reduction objectives. Through our environmental management system ("**EMS**") we strive to ensure that our operations are undertaken in a manner that manages and mitigates our impact on the environment. The EMS is aligned with the requirements of the International Organization for Standardization's environmental management system—ISO 14001—and is independently verified every two years. In the United Kingdom we will continue to publish our annual Environmental Statement and in Malaysia, environmental management and reporting is undertaken through PETRONAS Malaysia Petroleum Management.

In 2021, we set a target of reducing our absolute Scope 1 and 2 CO_2 equivalent emissions by 10% by 2023. We have linked this target as a key performance metric in our 2021 and 2022 long-term incentive scheme for executive directors and applicable employees and it is also linked to appropriate targets within our short-term incentive plan.

As the energy transition progresses and other industry operators continue to shift their focus from mature basins within various geographies, it is expected that there will be further opportunities for us to access additional oil and gas resources. However, we will aim to ensure we identify the right opportunities where we can deliver incremental emission reductions relative to the carbon footprint of the seller. In addition, our Infrastructure and New Energy segment will continue to assess renewable energy and decarbonization opportunities that would leverage existing infrastructure.

We are developing cost-effective and efficient plans to transform the Sullom Voe terminal and prepare and repurpose the site to progress decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen. Having secured exclusivity from the Shetland Islands Council to progress new energy opportunities on the site, we believe we are well placed to deliver on our new energy ambitions in cooperation with our potential strategic delivery partners and are currently exploring strategic operational and financial partnerships. The availability of the deep-water port and jetties and a pipeline network linked to several well-understood offshore reservoirs presents the opportunity to repurpose infrastructure to import and permanently store material quantities of CO_2 from isolated emitters in the UK, Europe or further afield. Initial feasibility studies have indicated existing infrastructure and storage sites are capable of housing up to 10 million tonnes per annum of CO_2. In May 2022, we made two carbon capture and storage ("**CCS**") license area nominations in locations which are both accessible from our existing infrastructure. These were both accepted and we made two applications in respect of these license areas in the North Sea Transition Authority ("**NSTA**") UK offshore CCS licensing round, which closed on September 13, 2022 with results expected to be announced in the first quarter of 2023. See "*Business—Overview of our assets—Infrastructure and New Energy*."

The safety of our people and operations is and will continue to be integral to our values. We have a group-wide health, safety, environment and assurance policy. We will continue to undertake improvement activities in support of our four key pillars of operations which are i) standards, setting rules and procedures; ii) awareness, ensuring employees understand the hazards and relevant controls; iii) fairness, or adopting the correct behaviors; and iv) engagement, communicating effectively with our employees. Despite the challenges and uncertainties of 2021 and managing late life assets through production operations and decommissioning activities, our LTI performance remained relatively stable at 0.21, as compared to 0.57 and 0.22 in 2019 and 2020, respectively, in line with the International Association of Oil and Gas Producers benchmark for LTI frequency for year end 2020 which was 0.22. Our LTI performance for the six months ended June 30, 2022 was nil. In August 2022, we had two incidents.

Our employees are central to our continued operational excellence and, as such, we are committed to providing an inclusive culture that recognizes and celebrates difference, encourages diversity of thought and embraces new ways of working to create an environment that enables the development of creative solutions to continue to deliver performance and value. Our diversity and inclusion strategy, developed in the first quarter of 2021, is now embedded in the overall strategy of the business. In 2021, we were named one of three finalists for the 2021 OGUK Diversity & Inclusion Award, from over 90 applicants from across the industry. We have set targets for gender and ethnicity representation in leadership, with a target of 30% women in both leadership roles and management grades across the business and a 20% minority ethnic representation in executive leadership roles. We aim to achieve these targets by 2025.

Maximize the performance of our existing asset portfolio and deliver innovative value-add initiatives

We aim to employ a cost conscious approach to our operations and implement innovative initiatives to add value to our operations. Since 2015, we have been able to significantly reduce our capital expenditure, while our abandonment expenditure only increased in the last two years compared with all prior years since 2015. We strive to utilize innovative transaction structures to facilitate getting the right assets in the right hands.

We believe we are strongly positioned to take advantage of the energy transition by responsibly optimizing production at our existing assets, leveraging existing infrastructure, delivering strong decommissioning performance and exploring new energy and further decarbonization opportunities. For example, for the year ending December 31, 2022, we expect cash capital expenditure of approximately $165 million, with approximately $110 million expected in the second half of 2022, and we expect cash abandonment expenditure of approximately $75 million, with approximately $47 million expected in the second half of 2022. Similarly, we expect operating expenditure of $430 million, with approximately $222 million expected in the second half of 2022. Moreover, to support these ambitions over the medium- to long-term, we established our Infrastructure and New Energy segment in 2021. This business is developing cost-effective and efficient plans to transform the Sullom Voe terminal and prepare and repurpose the site to progress decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen.

For the year ending December 31, 2022, we expect our average net production to be between 44,000 and 51,000 boepd.

We are disciplined in our assessment of acquisition opportunities, ensuring we review potential targets to ensure a fit for our portfolio and capabilities, as well as ensuring the right price

For example, in October of 2021, we completed the acquisition of Golden Eagle, a highly cash generative asset providing significant value enhancement through the addition of approximately 18 MMbbls to our 2P Reserves and approximately 3 MMbbls to net 2C resources, both as at December 31, 2021, for cash consideration of $249.7 million. The acquisition of Golden Eagle demonstrates our approach to selectively identify assets that fit our business model at the right price to strengthen our portfolio of assets.

Leverage integrated technical capabilities

We believe we have the right mix of integrated technical capabilities to select appropriate development and production options, deliver high levels of production efficiency and control costs to realize value from maturing and underdeveloped assets. We aim to achieve asset life extension and maximize economic recovery from those assets to enable future growth. Similarly, we are using our skills to assess repurposing opportunities of existing infrastructure and progress decarbonization opportunities.

Maintain a disciplined approach to financial management and a strong balance sheet

We aim to have a conservative financial profile and strong balance sheet with ample liquidity. Debt reduction and active management of our debt maturities will remain a priority, with leverage of 0.9x as of June 30, 2022 down from 6.6x as of December 31, 2017. As of June 30, 2022, on a *pro forma* basis after giving effect to the Transactions, our net leverage would have been 0.8x and our capital structure would have had a weighted average life ("**WAL**") of 4.3 years. We have identified a medium- to long-term net leverage target of 0.5x. We have also continued to reduce our net debt, down to $880.0 million as of June 30, 2022, our lowest level since 2014, which resulted in a corresponding reduction of leverage to 0.9x, calculated using net debt as of June 30, 2022 over Adjusted EBITDA for the twelve months ended June 30, 2022. Our deleveraging is driven by solid free cash flow, supported by material hedging revenues and our U.K. tax allowance position. While we intend to use debt financing and access to capital markets when appropriate, we will seek to manage the business with leverage levels that are reflective of the financial capacity of our assets.

Our liquidity is primarily derived from our RBL Facility. As of December 31, 2020 and 2021, our total cash and available facilities were $284.1 million and $318.7 million, respectively. In the six months ended June 30, 2022, we repaid $300.0 million under our RBL Facility. As of June 30, 2022, our total cash and available facilities were $467.0 million, including restricted funds and ring-fenced funds held in joint venture accounts totaling $286.1 million.

In line with our continued focus on deleveraging, we have further reduced amounts outstanding under the RBL Facility to $90.0 million as at August 31, 2022 and bought back and cancelled $34.9 million of our Existing Senior Notes across July, August and September 2022, leaving $792.3 million outstanding. As of August 31, 2022, net debt was $817.6 million. On September 21, 2022, we repaid the remaining $90.4 million (including $0.4 million of accrued and unpaid interest) outstanding under the RBL Facility with cash on balance sheet.

We will continue to focus our capital allocation strategy on identifying investments that prioritize positive cash flow generation. With a focus on short-cycle projects, we can adjust our capital allocation decisions to match the prevailing oil demand and price environment and are actively assessing program optimization in light of the recently introduced Energy Profits Levy ("**EPL**") in the U.K. In the twelve months ended June 30, 2022, our cash outflow on capital expenditure was $90.6 million, excluding acquisitions. In the year ended December 31, 2021, our cash outflow on capital expenditure was $51.8 million, excluding acquisitions, as compared to $131.4 million in the year ended December 31, 2020.

As part of our prudent risk management program, we actively hedge our exposure to oil prices on a graduated rolling basis to provide strong price protection throughout the economic cycle and support consistent, predictable cash flows. Liquidity risk will continue to be monitored closely through cash flow forecasts and sensitivity analysis. We will also continue to manage credit risk by assessing the creditworthiness of potential counterparties before entering into transactions with them and by continuing to evaluate their creditworthiness after transactions have been initiated.

Recent developments

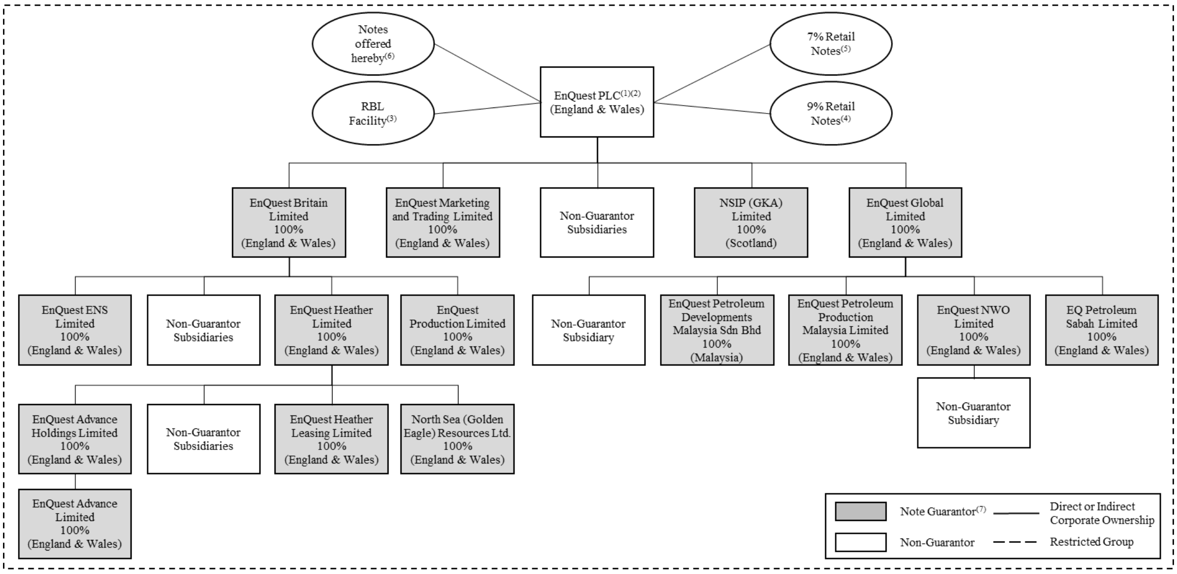
The preliminary information provided is based on internal management estimates and has been prepared under the responsibility of our management, and has not been prepared in accordance with IFRS. This preliminary information has not been audited, reviewed or verified, and no procedures have been completed by our external auditors with respect thereto. This preliminary financial information is not intended to be a comprehensive statement of our financial or operational results for the eight months ended August 31, 2022, and you should not place undue reliance thereon.

Current trading

Based on preliminary management estimates, our performance through August 31, 2022 is in line with expectations. As of August 31, 2022, net debt was $817.6 million, down approximately $62.4 million from June 30, 2022. On September 21, 2022, we repaid $90.4 million on the RBL Facility, representing the outstanding balance of $90.0 million and $0.4 million of accrued and unpaid interest. In line with previous drilling programs and our budget, we believe average well cost will be between $12.0 and $14.0 million for Magnus, approximately $10.0 million net for Golden Eagle and less than $10.0 million net for PM8/Seligi.

CORPORATE STRUCTURE AND CERTAIN FINANCING ARRANGEMENTS

The following chart shows a simplified summary of our corporate and financing structure after giving effect to the Transactions and the application of the use of proceeds therefrom, as described under "*Use of proceeds*." The chart does not include all of our subsidiaries or all of the debt obligations thereof. Unless otherwise indicated, the subsidiaries included in the simplified structure below are directly or indirectly wholly owned by EnQuest PLC. Our legal interests in our assets vary based on our contractual arrangements with our commercial partners and the relevant licenses and related agreements. For a description of our interests in certain assets, see "*Our business—Overview of our assets*." For a summary of the debt obligations identified in this diagram, see "*Description of Notes*," "*Description of certain financing arrangements*" and "*Capitalization*."



(1) As of June 30, 2022, we have an issued share capital of £94,296,217 million comprised of 1,885,924,339 ordinary shares with a par value of 5 pence, each being fully paid up. As of September 8, 2022, we had a market capitalization of $678.0 million based on the Bloomberg Composite Rate (London) pounds sterling/US dollar exchange rate of $1.16 per £1.00.

(2) The issuer of the Notes will be EnQuest PLC, a public limited company incorporated under the laws of England and Wales.

(3) The RBL Facility is the senior secured revolving borrowing base facility agreement entered into on June 10, 2021, among, *inter alios*, BNP Paribas as the fronting bank and the facility agent. As of June 30, 2022 outstanding drawings under the RBL Facility were $115.0 million, following accelerated repayments totaling $300.0 million during the first half of 2022. In July and August 2022, the amount drawn under the RBL Facility was further reduced to $90.0 million and on September 21, 2022 we repaid $90.4 million (including $0.4 million of accrued and unpaid interest) of outstanding amounts under the RBL Facility. Prior to the Issue Date the Company as borrower, BNP Paribas as facility agent and other parties entered into an amendment to the RBL (the "**RBL Amendment**"). Pursuant to the RBL Amendment, the RBL Facility is a senior secured revolving borrowing base facility for up to $500.0 million and the sublimit for drawings in the form of letters of credit is $75.0 million and a maturity of April 27, 2027. The RBL Facility is guaranteed by each of the Guarantors and secured on the shares and assets of the Guarantors. See "*Description of certain financing arrangements*."

(4) As of June 30, 2022, the Company had outstanding $136.1 million aggregate principal amount of the 7% Retail Notes. The 7% Retail Notes mature on October 15, 2023. The 7% Retail Notes accrue interest at a fixed coupon of 7.0% payable semi-annually in arrears. See "*Description of certain financing arrangements*."

(5) As of June 30, 2022, the Company had outstanding $163.1 million aggregate principal amount of the 9% Retail Notes. The 9% Retail Notes mature on October 27, 2027. The 9% Retail Notes accrue interest at a fixed coupon of 9.0% payable semi-annually in arrears. The 9% Retail Notes are senior obligations of the Company ranking *pari passu* in right of payment with all existing and future obligations of the Company that are not expressly subordinated in right of payment to the Notes, including obligations under the RBL Facility and the 7% Retail Notes. See "*Use of Proceeds*," "*Capitalization*" and "*Description of certain financing arrangements*."

(6) The Notes offered hereby will be senior obligations of the Company ranking *pari passu* in right of payment with all existing and future obligations of the Company that are not expressly contractually subordinated in right of payment to the Notes, including obligations under the RBL Facility, the 7% Retail Notes and the 9% Retail Notes. The Notes will be senior in right of payment to all future obligations of the Company that are subordinated in right of payment to the Notes. The Notes will be effectively subordinated to all existing and future secured obligations of the Company, including obligations under the RBL Facility to the extent of the value of the property and assets securing such obligations. The Notes will be structurally subordinated to all existing and future obligations of the Company's subsidiaries that do not guarantee the Notes, including any trade payables and letters of credit issued by or on behalf of such subsidiaries. The Notes will be guaranteed on a senior subordinated basis by the Guarantors, subject to limitations under applicable law as set forth below under the caption "*The Offering—Guarantors*." See "*Description of Notes*" and "*Capitalization*."

(7) The Notes will be guaranteed on a senior subordinated basis (the "**Note Guarantees**") by EnQuest Heather Limited, EnQuest Heather Leasing Limited, EnQuest ENS Limited, EnQuest Britain Limited, EQ Petroleum Sabah Ltd, EnQuest Production Limited, EnQuest NWO Limited, EnQuest Global Limited, EnQuest Advance Limited, EnQuest Petroleum Production Malaysia Ltd, North Sea (Golden Eagle) Resources Ltd., NSIP (GKA) Limited, EnQuest Marketing and Trading Limited, EnQuest Petroleum Developments Malaysia Sdn. Bhd., and EnQuest Advance Holdings Limited (collectively, the "**Guarantors**") on the Issue Date.

THE OFFERING

The following is a brief summary of certain terms of this offering. It is not intended to be complete and it is subject to important limitations and exceptions. Accordingly, it may not contain all the information that is important to you. For additional information regarding the Notes and the Note Guarantees, see "*Description of Notes*."

Issuer	EnQuest PLC, incorporated as a public limited company under the laws of England and Wales (the "**Company**").
Notes offered	$305.0 million aggregate principal amount of 11⅝% Senior Notes due 2027 (the "**Notes**").
Issue date	On or about October 25, 2022.
Issue price	98.611% (plus accrued interest, if any, from the Issue Date).
Maturity date	November 1, 2027.
Interest rate	11.625% per annum.
Interest payment dates	We will pay interest on the Notes semi-annually in arrears on May 1 and November 1, beginning May 1, 2023. Interest will accrue from the Issue Date.
Form and denomination	The Company will issue the Notes on the Issue Date in global registered form in minimum denominations of $200,000 and integral multiples of $1,000 in excess thereof maintained in book-entry form. Notes in denominations of less than $200,000 will not be available.
Ranking of the Notes	The Notes will be: • senior obligations of the Company; • *pari passu* in right of payment with all existing and future obligations of the Company that are not expressly contractually subordinated in right of payment to the Notes, including obligations under the RBL Facility, the 7% Retail Notes and the 9% Retail Notes; • senior in right of payment to all future obligations of the Company that are subordinated in right of payment to the Notes; • effectively subordinated to all existing and future secured obligations of the Company, including obligations under the RBL Facility to the extent of the value of the property and assets securing such obligations, unless such assets also secure the Notes on an equal and ratable or senior basis; • structurally subordinated to all existing and future obligations of the Company's Subsidiaries that do not guarantee the Notes; and • guaranteed on a senior subordinated basis by the Guarantors, subject to limitations under applicable law as set forth below under the caption "—*Guarantors*."
Guarantors	The Notes will be guaranteed on a senior subordinated basis (the "**Note Guarantees**") by EnQuest Heather Limited, EnQuest Heather Leasing Limited, EnQuest ENS Limited, EnQuest Britain Limited, EQ Petroleum Sabah Ltd, EnQuest Production Limited, EnQuest NWO Limited, EnQuest Global Limited, EnQuest Advance Limited, EnQuest Petroleum Production Malaysia Ltd, North Sea (Golden Eagle) Resources Ltd., NSIP (GKA) Limited, EnQuest Marketing and Trading Limited, EnQuest Petroleum Developments Malaysia Sdn. Bhd., and EnQuest Advance Holdings Limited (collectively, the "**Guarantors**") on the Issue Date.

As of June 30, 2022, after giving *pro forma* effect to the Offering:

- the Company and its consolidated subsidiaries had $1,012.5 million of indebtedness, of which $604.2 million is represented by the Notes, the 7% Retail Notes and the 9% Retail Notes;
- the Company and the Guarantors had $400.0 million of secured indebtedness; and
- the non-Guarantor subsidiaries of the Company did not have any financial indebtedness (excluding intercompany indebtedness), but were in some cases guarantors under the RBL Facility.

As of and for the six months ended June 30, 2022, the Company and the Guarantors represented 100% of the Company's revenue and other operating income and 82% of the Company's total assets.

Although the Indenture governing the Notes will contain limitations on the amount of additional indebtedness the Company and its restricted subsidiaries will be allowed to incur, these limitations are subject to a number of significant qualifications and exceptions, and, under certain circumstances, the amount of additional indebtedness could be substantial.

The obligations of each Guarantor under its Note Guarantee will be limited to an amount that can be guaranteed under applicable laws, and will not apply to the extent a Note Guarantee would be illegal or unenforceable under applicable local and bankruptcy laws. See "*Risk factors—Risks relating to the Notes and our structure—Each Note Guarantee will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability*" and "*Certain insolvency law considerations*."

Ranking of the Note Guarantees .... Each Note Guarantee will be:

- a senior subordinated obligation of the respective Guarantor;
- subordinated in right of payment to all existing and future senior obligations of that Guarantor, including such Guarantor's obligations under the RBL Facility;
- *pari passu* in right of payment with all existing and future senior subordinated obligations of that Guarantor;
- senior in right of payment to all future obligations of that Guarantor that are expressly contractually subordinated to that Guarantor's Note Guarantee; and
- effectively subordinated to all existing and future secured obligations of that Guarantor (including under the RBL Facility), to the extent of the value of the property and assets securing such obligations, unless such assets also secure the Note Guarantees on an equal and ratable or senior basis.

The Note Guarantees will be subject to release under certain circumstances. See "*Description of Notes—Note Guarantees release*."

Use of proceeds.................................... We intend to use the net proceeds from the issue of the Notes, along with drawings under the RBL Facility and cash on hand, for (i) the redemption of the aggregate principal amount of the Existing Senior Notes (the "**Redemption**") and (ii) the payment of fees, costs and expenses in connection with the Transactions. See "*Use of proceeds*."

Original Issue Discount	The Notes will be issued with original issue discount ("**OID**") for U.S. federal income tax purposes. Holders subject to U.S. federal income tax will generally be required to include such OID in gross income (as ordinary income) as it accrues (on a constant yield to maturity basis) for U.S. federal income tax purposes in advance of the receipt of cash payments to which such OID is attributable and regardless of the holder's regular method of accounting for U.S. federal income tax purposes. See "*Taxation—Certain United States federal income tax considerations to U.S. holders—Original issue discount*."
Additional amounts	All payments made by us under or with respect to the Notes or by any of the Guarantors with respect to any Note Guarantee will be made without withholding or deduction for taxes unless required by law. If the Company or any Guarantor is required by law to withhold or deduct for taxes imposed by any relevant taxing jurisdiction with respect to a payment to the holders of Notes, the Company or such Guarantor, as applicable, will pay the additional amounts necessary so that the net amount received by the holders of Notes after the withholding or deduction is equal to the amount that they would have received in the absence of the withholding or deduction, subject to certain exceptions. See "*Description of Notes—Additional amounts*."
Optional redemption for tax reasons	In the event of certain developments affecting taxation the Company may redeem the Notes in whole, but not in part, at any time upon giving prior notice, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See "*Description of Notes—Redemption for changes in taxes*."
Optional redemption	Prior to November 1, 2024 the Company may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of such Notes redeemed, plus accrued and unpaid interest, if any, to the redemption date, plus a "make-whole" premium, as described under "*Description of Notes—Optional redemption*." In addition, on or prior to November 1, 2024 the Company may redeem up to 40% of the original aggregate principal amount of each of the Notes (including any Additional Notes) with the net cash proceeds from specified equity offerings at a redemption price equal to 111.625% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date, provided that at least 60% of the original aggregate principal amount of the Notes (including any Additional Notes) remain outstanding after the redemption. See "*Description of Notes—Optional redemption*." Prior to November 1, 2024, the Company may redeem during each twelve-month period commencing with the Issue Date up to 10% of the original principal amount of the Notes at its option, at a redemption price equal to 103% of the principal amount of the Notes so redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. See "*Description of Notes—Optional redemption*." The Company may redeem the Notes on or after November 1, 2024 in whole or in part, at its option at the redemption prices as described under "*Description of Notes—Optional redemption*."
Change of control	Upon the occurrence of certain change of control events, the Company will be required to offer to repurchase the Notes at a purchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest, if any, to the date of the purchase. See "*Description of Notes—Repurchase at the option of holders—Change of control*."
Certain covenants	The Indenture will limit, among other things, the ability of the Company and its restricted subsidiaries to: • incur additional debt and issue guarantees and preferred stock;

- make certain payments, including dividends and other distributions, with respect to outstanding share capital;
- repay or redeem subordinated debt or share capital;
- create or incur certain liens;
- impose restrictions on the ability of the Company's restricted subsidiaries to pay dividends or other payments to the Company or any of its other restricted subsidiaries;
- make certain investments or loans;
- sell, lease or transfer certain assets, including shares of any restricted subsidiary of the Company;
- guarantee certain types of other indebtedness of the Company or its restricted subsidiaries without also guaranteeing the Notes;
- expand into unrelated businesses;
- merge or consolidate with other entities; and
- enter into certain transactions with affiliates.

Each of the covenants is subject to a number of important exceptions and qualifications. See "*Description of Notes—Certain covenants*."

Transfer restrictions .... The Notes and the Note Guarantees have not been, and will not be, registered under U.S. federal or state or any foreign securities laws. The Notes are subject to restrictions on transfer and may not be offered or sold except pursuant to an exception from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. See "*Notice to investors*."

No prior market .... The Notes will be new securities for which there is no market. Although the Initial Purchasers have informed the Company that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, the Company cannot assure you that an active trading market for the Notes will develop or be maintained.

Listing .... Application will be made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Euro MTF Market thereof. There can be no assurance that the Notes will be listed on the Exchange, that such permission to deal in the Notes will be granted or that the listing will be maintained.

Governing law .... The Notes, the Note Guarantees and the Indenture will be governed by New York law.

The Guarantee Subordination Agreement and the RBL Facility are governed by English law.

Trustee .... Deutsche Bank Trust Company Americas

Registrar, Transfer Agent and Principal Paying Agent........................ Deutsche Bank Trust Company Americas

Risk factors... Investing in the Notes involves substantial risks. You should consider carefully all the information in this Offering Memorandum and, in particular, you should evaluate the specific risk factors set forth under "*Risk factors*" before making a decision whether to invest in the Notes.

SUMMARY FINANCIAL DATA

The following tables present our summary historical consolidated financial information as of and for the years ended December 31, 2019, 2020 and 2021, which has been derived from our Audited Group Financial Statements and notes thereto as of and for the years ended December 31, 2019, 2020 and 2021 and our summary historical consolidated financial information as of and for the six months ended June 30, 2021 and June 30, 2022, which has been derived from our Unaudited Group Interim Financial Statements as of and for the six months ended June 30, 2021 and June 30, 2022. The restated financial statement data for the year ended December 31, 2020 has been derived from the Audited Group Financial Statements of the Company for the year ended December 31, 2021. Our Audited Group Financial Statements as of and for the years ended December 31, 2019, 2020 and 2021 should be read in conjunction with the relevant reports of our independent auditor for such periods.

The financial information presented as of and for the twelve months ended June 30, 2022 is derived from adding the unaudited condensed consolidated interim income statement for the six months ended June 30, 2022 to the audited historical consolidated income statement for the year ended December 31, 2021 and subtracting the unaudited historical condensed consolidated income statement for the six months ended June 30, 2021. The income statement for the twelve months ended June 30, 2022 has been prepared for illustrative purposes and is not necessarily representative of our results of operations for any future period or our financial condition at any future date and is not prepared in the ordinary course of our financial reporting in accordance with IFRS.

Our Audited Group Financial Statements as at and for the year ended December 31, 2019 included in this Offering Memorandum have been prepared in accordance with IFRS, as adopted by the European Union and comply with Article 4 of the EU IAS Regulation. Our Audited Group Financial Statements as at and for the year ended December 31, 2020 included in this Offering Memorandum have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and in accordance with IFRS as adopted by the European Union. Our Audited Group Financial Statements as at and for the year ended December 31, 2021 included in this Offering Memorandum have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and in accordance with U.K. adopted International Accounting Standards. Our Unaudited Group Interim Financial Statements as at and for the six months ended June 30, 2022 with unaudited comparative financial information for the six months ended June 30, 2021 included in this Offering Memorandum have been prepared in accordance with Accounting Standard IAS 34, and in accordance with U.K. adopted International Accounting Standards. The financial statement data set forth in the following tables should be read in conjunction with "*Presentation of financial and other information*," "*Capitalization*," "*Use of proceeds*," "*Management's discussion and analysis of financial condition and results of operations*," "*Selected financial data*," our annual financial statements and related notes. Historical results may not necessarily be indicative of results that may be expected for any future period.

Summary historical group income statement data

	For the year ended December 31,									For the six months ended June 30,			For the six months ended June 30,			For the twelve months ended June 30,		
	2019			2020[(c)]			2021			2021			2022			2022		
	Adjusted Business Performance[(a)]	Remeasurements and exceptional items[(b)]	Reported in year	Adjusted Business Performance[(a)]	Remeasurements and exceptional items[(b)]	Reported in year	Adjusted Business Performance[(a)]	Remeasurements and exceptional items[(b)]	Reported in year	Adjusted Business Performance[(a)]	Remeasurements and exceptional items[(b)]	Reported in year	Adjusted Business Performance[(a)]	Remeasurements and exceptional items[(b)]	Reported in year	Adjusted Business Performance[(a)]	Remeasurements and exceptional items[(b)]	Reported in year
	(in millions of $)																	
Revenue and other operating income	1,711.8	(65.4)	1,646.5	855.1	8.8	863.9	1,320.3	(54.5)	1,265.8	518.3	(37.0)	481.3	943.5	(104.7)	838.8	1,745.5	(122.2)	1,623.3
Cost of sales	(1,243.6)	(0.4)	(1,243.9)	(785.5)	(13.6)	(799.1)	(900.4)	(7.2)	(907.6)	(333.3)	—	(333.3)	(585.6)	(0.5)	(586.1)	(1,152.8)	(7.7)	(1,160.5)
Gross profit/(loss)	**468.3**	**(65.8)**	**402.5**	**69.6**	**(4.8)**	**64.8**	**419.8**	**(61.7)**	**358.2**	**185.0**	**(37.0)**	**148.1**	**357.9**	**(105.2)**	**252.8**	**592.7**	**(129.8)**	**462.9**
Net impairment reversal/(charge) to oil and gas assets	—	(812.4)	(812.4)	—	(422.5)	(422.5)	—	39.7	39.7	—	—	—	—	10.1	10.1	—	49.8	49.8
General and administration expenses	(7.7)	—	(7.7)	(6.1)	—	(6.1)	(0.4)	—	(0.4)	(0.1)	—	(0.1)	(3.1)	—	(3.1)	(3.3)	—	(3.3)
Other income	3.4	—	3.4	18.1	138.2	156.3	31.0	162.6	193.6	4.3	27.5	31.8	62.3	4.1	66.4	89.0	139.2	228.2
Other expenses	(21.9)	(31.7)	(53.6)	(101.6)	(1.0)	(102.6)	(7.3)	(3.8)	(11.1)	(13.9)	—	(13.9)	(1.0)	(31.0)	(32.0)	5.6	(34.8)	(29.3)
Profit/(loss) from operations before tax and finance income/(costs)	**442.2**	**(909.9)**	**(467.8)**	**(20.0)**	**(290.1)**	**(310.1)**	**443.2**	**136.9**	**580.1**	**175.4**	**(9.5)**	**165.9**	**416.1**	**(122.0)**	**294.2**	**684.0**	**24.4**	**708.3**
Finance costs	(206.6)	(57.2)	(263.8)	(179.8)	(77.3)	(257.1)	(169.5)	(58.4)	(227.8)	(86.6)	(30.3)	(116.9)	(94.1)	(17.9)	(112.0)	(177.0)	(46.0)	(222.9)
Finance income	2.4	—	2.4	1.2	—	1.2	0.2	—	0.2	0.1	—	0.1	0.4	—	0.4	0.5	—	0.5
Profit/(loss) before tax	**238.0**	**(967.1)**	**(729.1)**	**(198.7)**	**(367.3)**	**(566.0)**	**274.0**	**78.5**	**352.4**	**88.9**	**(39.8)**	**49.1**	**322.4**	**(139.8)**	**182.6**	**507.5**	**(21.6)**	**485.9**
Income tax	(23.6)	303.5	279.8	172.5	(76.4)	96.0	(53.7)	78.2	24.5	19.4	(124.9)	(105.4)	(142.4)	163.4	21.0	(215.5)	366.4	151.0
Profit/(loss) for the year attributable to owners of the parent	**214.3**	**(663.6)**	**(449.3)**	**(26.2)**	**(443.8)**	**(469.9)**	**220.3**	**156.7**	**377.0**	**108.3**	**(164.6)**	**(56.4)**	**180.0**	**23.5**	**203.5**	**292.0**	**344.9**	**636.9**
Total comprehensive income for the year, attributable to owners of the parent	—	—	**(449.3)**	—	—	**(469.9)**	—	—	**377.0**	—	—	**(56.4)**	—	—	**203.5**	—	—	**636.9**

(a) Adjusted business performance is our reported performance adjusted to remove the effects of remeasurements and exceptional items. We have adjusted the header of this column to comply with US market practice for labeling non-IFRS measures. The Audited Financial Statements presentation is compliant with the U.K. standards set by the Financial Reporting Committee.

(b) As permitted by IAS 1 (Revised): Presentation of Financial Statements, certain items of income or expense which are material are presented separately as "*Remeasurements and exceptional items*." Remeasurements relate to those items which are remeasured on a periodic basis and are applied consistently year-on-year. Exceptional items include 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 better understanding of the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance. For further information on our "*Remeasurements and exceptional items*," see "*Selected financial data*."

(c) The income statement for the year ended December 31, 2020 has been restated to reflect a change in presentation of rental income and the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements—Presentation of rental income*" and "*Presentation of financial and other information—Restatements—Deferred tax asset restatement.*"

Remeasurements and exceptional items

	For the year ended December 31,			For the six months ended June 30,		For the twelve months ended June 30,
	2019	2020[8]	2021	2021	2022	2022
			(in millions of $)			
Revenue and other operating income[1]	(65.4)	8.8	(54.5)	(37.0)	(104.7)	(122.2)
Cost of sales[2]	(0.4)	(13.6)	(7.2)	—	(0.5)	(7.7)
Net impairment reversal/(charge) on oil and gas assets[3]	(812.4)	(422.5)	39.7	—	10.1	49.8
Other income[4]	—	138.2	162.6	27.5	4.1	139.2
Other expenses[5]	(31.7)	(1.0)	(3.8)	—	(31.0)	(34.8)
Finance costs[6]	(57.2)	(77.3)	(58.4)	(30.3)	(17.9)	(46.0)
Profit/(loss) before tax	**(967.1)**	**(367.3)**	**78.5**	**(39.8)**	**(139.8)**	**(21.6)**
Tax on items above[7]	303.5	138.8	(26.3)	14.7	55.5	14.5
Recognition/(Derecognition) of undiscounted deferred tax asset	—	(215.2)	104.5	(139.5)	107.9	351.9
Total impact of remeasurements and exceptional items on profit/(loss) for the year attributable to owners of the parent	**(663.6)**	**(443.8)**	**156.7**	**(164.6)**	**23.5**	**344.8**

(1) In the year ended December 31, 2021, unrealized losses on oil derivative contracts were $54.5 million comprised of $55.6 million of losses from commodity options and $1.1 million of gains from commodity swaps.

In the year ended December 31, 2020, unrealized gains on oil derivative contracts were $8.8 million comprised of $0.1 million of losses from commodity options and $8.9 million of gains from commodity swaps.

In the year ended December 31, 2019, unrealized losses on oil derivative contracts were $65.4 million comprised of $55.5 million of losses from commodity options, $10.0 million of losses from commodity swaps and a gain of $0.1 million in commodity futures.

In the six months ended June 30, 2022, unrealized losses on oil derivative contracts were $104.7 million comprised of $106.0 million of losses from commodity options and a $1.3 million gain from commodity swaps.

In the six months ended June 30, 2021, unrealized losses on oil derivative contracts were $37.0 million comprised of $35.8 million of losses from commodity options and $1.2 million of losses from commodity swaps.

(2) In the year ended December 31, 2021, unrealized gains on derivative contracts related to operating costs were $0.5 million comprised of $0.4 million of gains from foreign exchange contracts and $0.1 million of gains from U.K. emission allowances forward contracts. The remaining $7.7 million were related to movements in other provisions.

In the year ended December 31, 2020, unrealized losses on derivative contracts related to operating costs were $1.9 million comprised of a loss of $1.9 million in foreign exchange contracts. The remaining $11.7 million were related to movements in other provisions.

In the year ended December 31, 2019, unrealized losses on derivative contracts related to operating costs were $0.4 million comprised of $1.7 million of gains from foreign exchange contracts and $2.1 million of losses from EU emission allowances forwards contracts.

In the six months ended June 30, 2022, unrealized losses on derivative contracts related to operating costs were $0.5 million comprised of $0.4 million of losses from foreign exchange contracts and $0.1 million of losses related to UKA contracts.

In the six months ended June 30, 2021, unrealized gains on derivative contracts related to operating costs were $nil.

(3) In the year ended December 31, 2021, the impairment reversal of $39.7 million was split between net impairment reversal of $24.0 million recognized in respect of oil and gas assets and $15.7 million in respect of right-of-use assets, respectively, within the North Sea segment primarily driven by an increase in our near-term future oil price assumptions.

In the year ended December 31, 2020, the impairment charge of $422.5 million was split between impairment charges of $314.3 million recognized in respect of oil and gas assets and $108.2 million in respect of right-of-use assets, respectively, within the North Sea segment primarily due to changes in long-term oil price assumptions.

In the year ended December 31, 2019, the impairment charges of $637.5 million on our tangible oil and gas assets arose from a reduction in the long-term oil price, revisions to reserve profiles in Heather/Broom, Thistle/Deveron and the Dons fields and the anticipated cessation of production at Alma/Galia. These changes also resulted in impairment charges of $149.6 million to our goodwill and $25.4 million to our intangible assets.

In the six months ended June 30, 2022, a net impairment reversal of $10.1 million was recognized as a result of increased short-term oil price forecasts.

In the six months ended June 30, 2021, there were no impairment reversals or charges.

(4) In the year ended December 31, 2021, other income included $140.1 million relating to fair value changes in contingent consideration related to the acquisition of Magnus.

In the year ended December 31, 2020, other income included $138.2 million relating to fair value changes in contingent consideration related to the acquisition of Magnus.

In the year ended December 31, 2019 there was no other income.

In the six months ended June 30, 2022, other income included $4.1 million were related to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure.

In the six months ended June 30, 2021, other income included $27.5 million relating to the fair value remeasurement of contingent consideration related to the acquisition of Magnus.

(5) In the year ended December 31, 2021, other expenses of $3.8 million were related to expenses incurred on the repayment of the BP vendor loan.

In the year ended December 31, 2020, other expenses of $1.0 million were primarily attributable to the loss on derecognition of the assets related to the Seligi riser detachment.

Other expenses in the year ended December 31, 2019 mainly related to the provision for settlement of the historical KUFPEC claim of $15.6 million and fair value adjustment relating to the contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $15.5 million.

In the six months ended June 30, 2022, other expenses included a $31.0 million loss in relation to fair value recalculation of the Magnus contingent consideration reflecting a forecast increase in Magnus future cash flows as a result of increased short-term oil price forecast.

In the six months ended June 30, 2021, there were no remeasurements or exceptional items impacting other expenses.

(6) In the year ended December 31, 2021, finance costs reflect the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $58.4 million.

In the year ended December 31, 2020, finance costs reflect the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $77.3 million.

In the year ended December 31, 2019, finance costs reflect the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $57.2 million.

In the six months ended June 30, 2022, finance costs included $17.9 million associated with the unwinding of discount on contingent consideration on the 75% acquisition of Magnus and associated infrastructure.

In the six months ended June 30, 2021, finance costs reflect unwinding of discount on contingent consideration on the 75% acquisition of Magnus of $30.3 million.

(7) In considering the tax on exceptional items, we apply the appropriate statutory tax rate to each item to calculate the relevant tax charge on exceptional items.

In the year ended December 31, 2021, a net tax credit of $78.2 million has been recognized as exceptional, representing the recognition of undiscounted deferred tax assets of $104.5 million following our acquisition of Golden Eagle and our higher oil price assumptions, partially offset by a tax charge of $26.3 million charged on the remeasurements and exceptional items.

In the year ended December 31, 2020, a net tax charge of $76.4 million has been recognized as exceptional, representing the de-recognition of undiscounted deferred tax assets of $215.2 million in light of lower long-term oil price assumptions, partially offset by a tax credit of $138.8 million charged on the remeasurements and exceptional items.

In the year ended December 31, 2019 there was no material other tax exceptional items, with the full credit of $303.5 million relating to tax charged on the remeasurements and exceptional items and no recognition or derecognition of undiscounted deferred tax assets.

In the six months ended June 30, 2022, a net tax credit of $163.4 million has been recognized as exceptional, representing the non-cash recognition of $107.9 million of undiscounted deferred tax assets due to increased short-term oil price assumptions and the tax impact of exceptional items and remeasurements. Had the EPL been enacted in the interim period, as cash tax liability of $14.4 million would have been recognized in respect of remeasurements and exceptional items in the period between May 26, 2022 and June 30, 2022.

In the six months ended June 30, 2021, a net tax charge of $124.9 million has been recognized as exceptional, representing the tax impact of unrealized losses of $37.0 million in respect of the mark-to-market movement on commodity contracts, a $27.5 million gain in relation to the fair value recalculation of the Magnus contingent consideration, finance costs of $30.3 million relating to the unwinding of contingent consideration from the acquisition of Magnus and interest charges on the vendor loan and a non-cash derecognition of undiscounted deferred tax assets of $139.5 million.

(8) The income statement for the year ended December 31, 2020 has been restated to reflect a change in presentation of rental income and the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements.*"

Summary historical balance sheet data

	As of December 31,			As of June 30,
	2019	2020[(1)]	2021	2022
	(in millions of $)			
Non-current assets	4,188.9	3,455.7	3,707.0	3,582.5
Current assets	587.7	406.9	658.6	774.5
Total assets	**4,776.6**	**3,862.6**	**4,365.6**	**4,357.0**
Total equity	**559.1**	**91.2**	**520.8**	**726.4**
Non-current liabilities	3,347.1	2,827.5	2,853.2	2,714.4
Current liabilities	870.4	943.9	991.7	916.2
Total liabilities	**4,217.6**	**3,771.4**	**3,844.9**	**3,630.6**
Total equity and liabilities	**4,776.6**	**3,862.6**	**4,365.6**	**4,357.0**

(1) The balance sheet as of December 31, 2020 has been restated to reflect the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements.*"

Summary historical cash flow statement data

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020[(1)]	2021	2021	2022
	(in millions of $)				
Net cash flows from/(used in) operating activities	962.3	521.4	674.1	246.9	498.4
Net cash flows (used in)/from investing activities	(257.8)	(120.6)	(321.2)	(19.8)	(54.4)
Net cash flows from/(used in) financing activities	(730.0)	(401.0)	(285.5)	(173.8)	(344.4)

(1) The cash flow statement as of December 31, 2020 has been restated to reflect a change in presentation of our statement of cash flows to reconcile to cash and cash equivalents per the balance sheet. See "*Presentation of financial and other information—Restatements—Presentation of our statement of cash flows.*"

Other financial data and key ratios

	As of and for the year ended December 31,			As of and for the six months ended June 30,		As of and for the twelve months ended June 30,
	2019	2020	2021	2021	2022	2022
	(in millions of $, except ratios and per share information)					
Adjusted EBITDA[(1)]	1,006.5	550.6	742.9	345.4	536.3	933.7
Cash capital and abandonment expense[(2)]	(248.6)	(173.0)	(117.6)	(54.6)	(82.9)	(145.9)
Adjusted operating cash flow[(3)]	687.4	390.8	539.8	212.5	406.6	n/a
Free cash flow[(4)]	368.5	210.5	396.8	144.5	332.1	n/a
Finance costs[(5)]	263.8	257.1	227.8	116.9	112.0	222.9
Total debt[(6)]	1,633.4	1,502.6	1,508.6	n/a	n/a	1,249.7
Net debt[(6)]	1,413.0	1,279.7	1,222.0	n/a	n/a	880.0
Adjusted EBITDA/Finance costs[(7)]	3.8	2.1	3.3	n/a	n/a	4.1
Net debt/ Adjusted EBITDA[(8)]	1.4	2.3	1.6	n/a	n/a	0.9
As adjusted net debt[(9)]						759.4
As adjusted finance costs[(10)]						82.3
Adjusted EBITDA/As adjusted finance costs[(1)(10)]						11.3x
As adjusted net debt/ Adjusted EBITDA[(1)(9)]						0.8x

(1) Adjusted EBITDA consists of adjusted business performance profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation, change in provision, foreign exchange movements and inventory revaluation. Adjusted EBITDA is not a measurement of performance under IFRS or U.S. GAAP and you should not consider Adjusted EBITDA as an alternative to (i) operating profit or profit from continuing activities (as determined in accordance with IFRS) as a measure of our operating performance, (ii) cash flows from operating investing and financing activities as a measure of our ability to meet our cash needs or (iii) any other measures of performance under IFRS or other generally accepted accounting principles.

Adjusted EBITDA included in this Offering Memorandum was defined as EBITDA in our annual report and accounts for the years ended December 31, 2019 and 2020. The definition of EBITDA was revised to Adjusted EBITDA in our annual report and accounts for the year ended December 31, 2021 without changing the actual reconciliation to clarify that add backs other than interest, tax, depreciation and amortization were reflected.

We believe that Adjusted EBITDA is a useful indicator of our ability to incur and service our indebtedness and can assist securities analysts, investors and other parties to evaluate us. Adjusted EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing Adjusted EBITDA as reported by us to Adjusted EBITDA of other companies. See the below table for a reconciliation of profit for the period from continuing operations to Adjusted EBITDA.

	For the year ended December 31,			For the six months ended June 30,		For the twelve months ended June 30,
	2019	2020(a)	2021	2021	2022	2022
	(in millions of $)					
Profit/(loss) for the year attributable to owners of the parent	(449.3)	(469.9)	377.0	(56.4)	203.5	636.9
Income tax	(279.8)	(96.0)	(24.5)	105.4	(21.0)	(150.9)
Profit/(loss) before tax	**(729.1)**	**(566.0)**	**352.4**	**49.1**	**182.6**	**485.9**
Finance income	(2.4)	(1.2)	(0.2)	(0.1)	(0.4)	(0.5)
Finance costs	263.8	257.1	227.8	116.9	112.0	222.9
Profit/(loss) from operations before tax and finance income/(costs)	**(467.8)**	**(310.1)**	**580.1**	**165.9**	**294.2**	**708.3**
Total impact of remeasurements and exceptional items on the Profit/(loss) from operations before tax and finance income/(costs)	909.9	290.1	(136.9)	9.5	122.0	(24.4)
Depletion and depreciation(b)	533.4	445.9	313.1	157.0	177.5	333.6
Inventory revaluation(c)	14.6	24.9	0.2	1.0	(0.4)	(1.2)
Change in provision(d)	-	95.2	(13.1)	5.7	(32.3)	(51.2)
Net foreign exchange (gain)/loss(e)	16.4	4.6	(0.4)	6.4	(24.7)	(31.4)
Adjusted EBITDA	**1,006.5**	**550.6**	**742.9**	**345.4**	**536.3**	**933.7**

(a) The income statement for the year ended December 31, 2020 has been restated to reflect the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements*."

(b) For the year ended December 31, 2021 represents depletion of oil and gas assets of $305.6 million and depreciation of $7.5 million. For the year ended December 31, 2020 represents depletion of oil and gas assets of $438.2 million and depreciation of $7.6 million. For the year ended December 31, 2019 represents depletion of oil and gas assets of $525.1 million and depreciation of $8.2 million. For the six months ended June 30, 2022 represents depletion of oil and gas assets of $174.2 million and depreciation of $3.3 million. For the six months ended June 30, 2021 represents depletion of oil and gas assets of $153.1 million and depreciation of $3.9 million.

(c) For the year ended December 31, 2021 a portion of the provided for well supplies was disposed, resulting in a net charge to the income statement of $0.2 million. For the year ended December 31, 2020, a net charge of $24.9 million was charged to the income statement in respect of well supplies provisions, primarily associated with decommissioned assets. In the year ended December 31, 2019, inventories of $14.6 million were recognized within cost of sales in the statement of comprehensive income. For the six months ended June 30, 2022, a net charge of $0.4 million was recognized. For the six months ended June 30, 2021, a net disposal/write down of inventory of $1.0 million was recognized.

(d) For the year ended December 31, 2021 represents other income of $19.3 million relating to a change in decommissioning provisions partially offset by other expenses of $6.2 million relating to a change in Thistle decommissioning provisions. For the year ended December 31, 2020 represents other expenses of $83.2 million relating to a change in decommissioning provisions and $12.0 million relating to a change in Thistle decommissioning provisions. For the six months ended June 30, 2022 represents other income of $26.9 million relating to changes to the decommissioning provisions and $9.3 million relating to a change in the Thistle decommissioning provisions. For the six months ended June 30, 2021 represents other expenses of $6.3 million relating to a change in decommissioning provisions partially offset by other income of $0.6 million relating to a change in the Thistle decommissioning provisions.

(e) For the year ended December 31, 2021 represents other income of $0.4 million relating to net foreign exchange gains. For the year ended December 31, 2020 represents other expenses of $4.6 million relating to net foreign exchange losses. For the year ended December 31, 2019 represents other expenses of $16.4 million relating to net foreign exchange losses. For the six months ended June 30, 2022 represents other income of $23.2 million relating to net foreign exchange gains. For the six months ended June 30, 2021 represents other expenses of $6.4 million relating to net foreign exchange losses.

(2) Cash capital and abandonment expense represents investing activities on a cash basis (cash capex) plus our cash spend on decommissioning activities. See "*Management's discussion and analysis of financial condition and results of operations—Capital investment*."

	For the year ended December 31,			For the six months ended June 30,	
	(in millions of $)				
	2019	**2020**	**2021**	**2021**	**2022**
Reported Net cash flows (used in)/from investing activities	(257.8)	(120.6)	(321.2)	(19.8)	(54.4)
Adjustments					
Purchase of other intangible assets	—	—	10.1	—	—
Repayment of Magnus contingent consideration- Profit share	21.6	41.1	1.0	1.0	—
Net cash received on Tanjong Baram risk service contract.	—	(51.1)	—	—	—
Acquisition	—	—	258.6	3.0	—
Interest received	(1.2)	(0.8)	(0.3)	(0.1)	(0.3)
Cash capex	**(237.5)**	**(131.4)**	**(51.8)**	**(15.9)**	**(54.7)**
Decommissioning spend	(11.1)	(41.6)	(65.8)	(38.7)	(28.2)
Cash capital and abandonment expense	**(248.6)**	**(173.0)**	**(117.6)**	**(54.6)**	**(82.9)**

(3) The table below sets forth our reconciliation of our net cash flows from/(used in) operating activities to Adjusted operating cash flow.

	For the year ended December 31,			For the six months ended June 30,	
	2019	**2020** (*restated*)	**2021**	**2021**	**2022**
	(in millions of $)				
Net cash flows from/(used in) operating activities	962.3	521.4	674.1	246.9	498.4
Cash received from insurance	—	—	(0.7)	—	(8.3)
Cash (received)/paid on (sale)/purchase of financial instruments	(4.9)	(6.2)	0.3	—	0.1
Decommissioning spend	11.1	41.6	65.8	38.7	28.2
Interest paid	(146.0)	(43.0)	(63.0)	(15.8)	(52.5)
Repayment of obligations under leases	(135.1)	(123.0)	(136.7)	(57.3)	(59.3)
Adjusted operating cash flow	**687.4**	**390.8**	**539.9**	**212.5**	**406.6**

(4) The table below sets forth our reconciliation of our net cash flow adjusted for net repayment/proceed of loans and borrowings, net of share issues and cost of acquisitions.

	For the year ended December 31,			For the six months ended June 30,	
	2019	**2020** (*restated*)	**2021**	**2021**	**2022**
	(in millions of $)				
Net cash flows from/(used in) operating activities	962.3	521.4	674.1	246.9	498.4
Net cash flows (used in)/from investing activities	(257.8)	(120.6)	(321.2)	(19.8)	(54.4)
Net cash flows from/(used in) financing activities	(730.0)	(401.0)	(285.5)	(173.8)	(344.4)
Adjustments					
Proceeds of loans and borrowings	—	—	125.0	—	(67.4)
Repayment of loans and borrowings	394.0	210.7	(184.3)	88.2	300.1
Acquisitions	—	—	258.6	3.0	—
Repayment of Magnus contingent consideration—Vendor loan[(a)]	—	—	58.7	—	—
Net proceeds of share issue	—	—	(47.8)	—	—
Shares purchased by Employee Benefit Trust	—	(1.2)	0.6	—	—
Free cash flow	**368.5**	**210.5**	**396.8**	**144.5**	**332.1**

(a) Related to the accelerated vendor loan repayment.

(5) Finance costs per the income statement. Finance costs include non-cash items such as "Unwinding of discount on contingent consideration" and "Fair value (gain)/loss on financial instruments at FVPL." See "*Management's discussion and analysis of financial condition and results of operations—Explanation of income statement items—Finance costs.*"

	For the year ended December 31,			For the six months ended June 30,		For the twelve months ended June 30,
	2019	2020	2021	2021	2022	2022
			(in millions of $)			
Loan interest payable	67.7	32.8	20.2	10.8	8.6	18.0
Bond interest payable	62.7	73.5	69.1	37.5	31.5	63.0
Unwinding of discount on decommissioning provisions	13.4	14.5	15.9	7.9	8.5	16.4
Unwinding of discount on other provisions	0.7	0.8	1.1	0.5	0.4	1.0
Finance charges payable under leases	55.7	50.9	45.4	23.5	20.0	41.9
Amortization of finance fees on loans and bonds	5.7	5.4	13.6	3.7	17.9	27.9
Other financial expenses	2.1	2.0	4.3	2.6	3.4	5.1
Amounts capitalized to the cost of qualifying asset	(1.4)	—	—	—	—	—
Fees associated with issuance of 9% Retail Notes	—	—	—	—	3.7	3.7
Adjusted Business performance finance expenses[(a)]	**206.6**	**179.8**	**169.5**	**86.6**	**94.1**	**177.0**
Finance costs on Magnus-related contingent consideration	57.2	77.3	58.4	30.3	17.9	46.0
Total finance costs	**263.8**	**257.1**	**227.8**	**116.9**	**112.0**	**222.9**

(a) Adjusted business performance is our reported performance adjusted to remove the effects of remeasurements and exceptional items. We have adjusted the header of this column to comply with US market practice for labeling non-IFRS measures. The Audited Financial Statements presentation is compliant with the U.K. standards set by the Financial Reporting Committee.

(6) Net debt consists of total debt less cash and cash equivalents excluding lease liabilities. Total debt as of June 30, 2022 includes $115.7 million in borrowings and $1,125.1 million in bonds. As adjusted total debt consists of total debt as of June 30, 2022 adjusted for the Offering as if the Offering had occurred on June 30, 2022 and as adjusted net debt consists of our as adjusted total debt less our as adjusted cash and cash equivalents.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
		(in millions of $)		
Existing RBL Facility	—	—	391.8	107.3
Multi-currency revolving credit facility [(a)]	475.1	377.3	—	—
Sculptor Capital Facility[(b)]	120.3	65.8	—	—
SVT Working Capital Facility	31.9	9.2	9.9	8.3
Tanjong Baram Project Financing Facility	31.7	—	—	—
Existing Senior Notes	741.6	796.5	825.4	825.9
7% Retail Notes	224.7	248.5	256.2	136.1
9% Retail Notes	—	—	—	163.1
Unamortized fees on loans and borrowings[(c)]	2.6	1.9	23.3	7.7
Unamortized fees on bonds[(d)]	5.6	3.3	2.1	1.3
Total debt	**1,633.4**	**1,502.5**	**1,508.6**	**1,249.7**
Cash and cash equivalents[(e)]	(220.5)	(222.8)	(286.7)	(369.7)
Net debt	**1,413.0**	**1,279.7**	**1,222.0**	**880.0**

(a) During the year ended December 31, 2021, we refinanced our multi-currency revolving credit facility.

(b) On September 24, 2018, we entered into a $175.0 million financing facility with Sculptor Capital Management Inc (the "**Sculptor Capital Facility**"). The facility was drawn down in full and was repayable in five years from initial availability of the facility. During the year ended December 31, 2021, we repaid our outstanding debt on the Sculptor Capital Facility.

(c) For the year ended December 31, 2021, represents $23.3 million of unamortized fees in respect of the RBL Facility. For the year ended December 31, 2020, represents $1.9 million of unamortized fees in respect of Sculptor Capital Facility. For the year ended December 31, 2019, represents $2.6 million of unamortized fees in respect of Sculptor Capital Facility.

(d) For the year ended December 31, 2021, comprised of $1.7 million and $0.4 million of unamortized fees related to the Existing Senior Notes and the 7% Retail Notes, respectively. For the year ended December 31, 2020, comprised of $2.7 million and $0.6 million of unamortized fees related to the Existing Senior Notes and the 7% Retail Notes, respectively. For the year ended December 31, 2019, comprised of $4.5 million and $1.1 million of unamortized fees related to the Existing Senior Notes and the 7% Retail Notes, respectively. For the six months ended June 30, 2022, comprised of $1.3 million of unamortized fees related to the Existing Senior Notes.

(e) For the years ended December 31, 2019, 2020 and 2021, cash and cash equivalents included $2.3 million, $1.7 million and $9.7 million of restricted cash, respectively, and $74.0 million, $108.0 million and $181.7 million of ring-fenced funds held in joint venture operational accounts. For the six months ended June 30, 2021 and 2022, cash and cash equivalents included $30.7 million and $9.5 million of restricted cash, respectively, and $71.3 million and $276.7 million of ring-fenced funds held in joint venture operational accounts.

(7) The Adjusted EBITDA to finance costs ratio is calculated as EBITDA divided by finance costs per the income statement. The EBITDA to finance costs ratio is not a measurement of financial performance under IFRS and should not be considered as measures of liquidity or an alternative to operating profit or profit for the period or any other performance measure derived in accordance with IFRS.

(8) The net debt to EBITDA ratio is calculated as net debt divided by EBITDA. The net debt to EBITDA ratio and the pro forma net debt to EBITDA ratio are not measurements of financial performance under IFRS and should not be considered as measures of liquidity or an alternative to operating profit or profit for the period or any other performance measure derived in accordance with IFRS.

(9) As adjusted net debt consists of our total debt as of June 30, 2022, as adjusted to reflect the Transactions, as if they had occurred on June 30, 2022. See "*Use of proceeds*".

(10) As adjusted finance costs consists of our finance costs for the twelve months ended June 30, 2022 as adjusted to reflect the issuance of the Notes, including the application of the net proceeds of the Notes as described in "*Use of proceeds*" as if these events had occurred on June 30, 2022. It includes interest on the Notes, the 7% Retail Bond, the 9% Retail Bond, the SVT Working Capital Facility and commitment fees and interest expense on the RBL Facility (assuming the RBL Facility was drawn to $400.0 million for the twelve months ended June 30, 2022, using SOFR and SONIA overnight rate from Bloomberg as of June 30, 2022 (SOFR and SONIA include one-month CAS and CAS LIBOR transition adjustments)). As adjusted finance costs has been presented for illustrative purposes only and does not purport to represent what interest expense would have actually been had the Transactions occurred on the date assumed, nor does it purport to project cash interest payments for any future period or the Issuer's financial condition at any future date.

SUMMARY RESERVES, RESOURCES, PRODUCTION AND OPERATING DATA

The following table sets forth our summary of oil and gas 1P and 2P Reserves and 2C Resources. The 2C Resources data presented in this Offering Memorandum has been prepared by our internal competent and qualified technical personnel and has not been audited by GaffneyCline.

In this Offering Memorandum, "**1P Reserves**" are defined as the Proved Reserves. "**2P Reserves**" are defined as the sum of Proved Reserves plus Probable Reserves. Pursuant to the classifications and definitions provided by the PRMS, "**Proved Reserves**" is defined as those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations and "**Probable Reserves**" is defined as those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but are more certain to be recovered than Possible Reserves; it is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved Reserves plus Probable Reserves (2P Reserves). In this Offering Memorandum, references to "**2C Resources**" are to the "best estimate" of the Contingent Resources. Pursuant to the classifications and definitions provided by the PRMS, Contingent Resources are those quantities estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. The "**2C Resources**" represent the "best estimate" scenario of the Contingent Resources; there is a probability of at least 50% that the amount actually recovered will equal or exceed the 2C Resources estimate, in the event that the development project is undertaken.

Reserves & contingent resources

	As of December 31,		
	2019	**2020(1)**	**2021(2)**
1P Reserves			
Oil (MMbbl)	133	115	133
Gas (Bscf)(3)	44	49	50
Total 1P Reserves (MMboe)	**140**	**123**	**141**
2P Reserves			
Oil (MMbbl)	201	178	182
Gas (Bscf)(4)	68	64	69
Total 2P Reserves (MMboe)	**213**	**189**	**194**
2C Resources			
Oil (MMbbl)	134	238	359
Gas (Bscf)	237	249	262
Total 2C Resources (MMboe)	**173**	**279**	**402**

(1) For the year ended December 31, 2020, 2C Resources includes 115 MMbbls associated with the completion of the Bressay acquisition in January 2021.

(2) For the year ended December 31, 2021, 1P Reserves, 2P Reserves and 2C Resources include the net oil and gas reserves associated with the Golden Eagle acquisition which we closed on October 22, 2021.

(3) For the years ended December 31, 2019, 2020 and 2021, 1P gas reserves included 34.2 Bscf used for fuel and 10.1 Bscf used for sales, 32.8 Bscf used for fuel and 16.0 Bscf used for sales and 40.2 Bscf used for fuel and 9.7 Bscf used for sales, respectively.

(4) For the years ended December 31, 2019, 2020 and 2021, 2P gas reserves included 41.5 Bscf used for fuel and 26.9 Bscf used for sales, 38.6 Bscf used for fuel and 25.5 Bscf used for sales and 47.8 Bscf used for fuel and 21.5 Bscf used for sales, respectively.

Production & operating data

The following table details our production, realized prices and operating costs data as of and for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022. For additional information on price calculations, see "*Management's discussion and analysis of financial condition and results of operations*."

	For the year ended December 31,			For the six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
Net daily average production (boepd)[(1)]	68,606	59,116	44,415	46,187	49,726
Realized oil price[(2)] ($/bbl)	65.3	41.3	68.6	62.8	89.9
Average unit operating costs[(3)] ($/boe)	20.6	15.2	20.5	19.3	22.7
Unit production costs[(4)] ($/boe)	17.6	12.3	18.1	16.7	20.1
Tariff and transportation expenses ($/boe)	3.0	2.9	2.4	2.6	2.6
Depletion of oil and gas assets ($m)	525.1	438.2	305.6	153.1	174.2

(1) Export volume. See "*Certain reserves and production information—Hydrocarbon data*."

(2) Realized oil prices including the impact of hedging in the respective period.

(3) Average unit operating costs include production costs, tariff and transportation expenses and realized (gain)/loss on derivatives but exclude depletion of oil and gas assets, depreciation, (credit)/charge relating to our lifting position and inventory and other cost of sales.

(4) Unit production costs are operating costs less tariff and transportation expenses and realized (gain)/loss on derivatives.

RISK FACTORS

In addition to the other information contained in this Offering Memorandum, you should carefully consider the following risk factors before purchasing the Notes. The risks and uncertainties we describe below are not the only ones we face. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial may also adversely affect our business, prospects, financial condition and results of operations. If any of the possible events described below were to occur, our business, prospects, financial condition and results of operations could be materially and adversely affected. If that happens, we may not be able to pay interest or principal on the Notes when due and you could lose all or part of your investment. This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this Offering Memorandum.

Risks relating to the oil and gas industry

Volatility and further decreases in oil prices could materially and adversely affect our business, prospects, financial condition and results of operations

Our business, prospects, financial condition and results of operations depend substantially upon oil prices, which may be adversely impacted by unfavorable global, regional and national macroeconomic conditions. Oil is a commodity for which prices are determined based on world demand, supply and other factors, all of which are beyond our control. Historically, oil prices have fluctuated widely for many reasons, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- decrease in demand due to increased climate change legislation and regulation imposing limits on carbon emissions;
- decrease in demand in countries with weak macro-economic growth;
- evolution of stocks of oil and related products;
- increased production due to new extraction developments and improved extraction and production methods;
- geopolitical uncertainty, including trade disputes and independence movements;
- threat of terrorism and cyber-attacks from which some producing areas suffer periodically;
- weather conditions, natural disasters and environmental incidents;
- access to pipeline systems, storage platforms, shipping vessels and other means of transporting and storing oil;
- prices and availability of and competition from alternative fuels and energy sources;
- prices and availability of new technologies;
- the ability of the members of OPEC, and other oil producing nations, to set and maintain specified levels of production and prices;
- political, economic and military developments in oil producing regions generally;
- governmental regulations and actions, including the imposition of export restrictions and taxes and environmental requirements and restrictions; and
- market uncertainty and speculative activities by those who buy and sell oil on the world markets.

Historically, crude oil prices have been highly volatile and subject to large fluctuations in response to relatively minor changes in the demand for oil, or subject to sharp price movements, such as that which coincided with the onset of the COVID-19 pandemic. Dated Brent crude oil averaged $70.9/bbl in 2021, with a low of $51.1/bbl on January 4, 2021 and a high of $86.4/bbl on October 26, 2021, compared to an average of $64.2/bbl and $43.2/bbl in

2019 and 2020, respectively. After the invasion into Ukraine by Russian troops on February 24, 2022, oil prices surged by $8/bbl to $105/bbl, on expectations that sanctions by western countries against Russia would cripple energy exports. See "*—The ongoing military action between Russia and Ukraine could adversely affect our business, financial condition and results of operations.*" However, oil prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of this commodity due to the current state of the world's economies, actions of OPEC, ongoing geopolitical uncertainty and related economic impacts and ongoing global credit and liquidity concerns. Moreover, a sustained and significant increase in fuel, oil or gas prices may prompt governments to implement measures to control or reduce prices, including price caps, which could materially and adversely affect our business, prospects and results of operation. Such government measures have already happened with respect to fuel prices in several jurisdictions and may spread further in the context of Russia's ongoing invasion into Ukraine and its impact on energy markets and prices. It is also expected that the increased focus of governments, regulators and consumers on the impact of climate change and reducing carbon emissions could reduce demand for oil and suppress oil prices. There can be no assurances as to the level of oil prices that will be achievable in the future.

Our revenues, operating results, profitability, future production capabilities and the carrying value of our oil properties depend heavily on the prices we receive for oil sales. Substantially all of our reserves are constrained by a commercial materiality threshold and therefore are impacted by changes in oil prices. In particular, decreases to oil prices could lead to reductions in the economic life of a field, which could, in turn, lead to a decrease in our reserves. For example, during 2019 we recorded downward revisions to our reserves at Heather/Broom and Thistle/Deveron, following safety-related shutdowns at those fields in the fourth quarter of 2019, and in light of the low oil price environment in the first half of 2020, we decided not to re-start production at those fields following an analysis that the costs and risks of remediation and restarting production outweighed the economic benefits of doing so. Going forward, we may elect not to continue production from certain of our assets in the event of further decreases in oil price, or our license partners may not want to continue production, regardless of our position, and subsequently may seek to sell their interest in a particular license, which could have a material adverse impact on our results of operations.

Although oil prices have recovered throughout 2021 and into 2022, we believe that low oil prices, as experienced in 2020, may return and endure in the future due to climate change driving a reduced demand for oil. Lower oil prices typically result in significant reductions in capital expenditure budgets, cancellation or deferral of projects and reductions in discretionary expenditures. For example, in response to the deterioration in the oil price environment in 2020, we reviewed our spending plans and implemented a material operating costs and capital expenditure reduction program, including an acceleration of cessation of production at a number of our highest cost assets, a significant reduction in our workforce and deferral or cancellation of drilling and other discretionary activities, which in turn resulted in a reduction in our costs and improved cash flow. Certain development projects could become unprofitable as a result of oil price declines, which could in turn result in us postponing or cancelling a planned project or, if it is not possible to cancel the project, carrying out the project with negative economic impact. In addition, we may face property impairments if prices fall significantly. No assurance can be given that oil prices will remain at levels which will enable us to do business profitably or at levels that make it economically viable to produce from certain wells and any material decline in such prices could result in a reduction of our net production volumes and revenue and a decrease in our reserves and in the valuation of our exploration, appraisal, development and production properties.

A decline in the price of oil could also cause us to fail a liquidity covenant and to request a covenant waiver under our RBL Facility. The liquidity covenant (the "**EnQuest Group Liquidity Test**"), which is tested semi-annually, requires that we have sufficient funds available to meet all our liabilities in each six-month period over the next 24 months. However, prior to the Refinancing, the EnQuest Group Liquidity Test shall only be tested up to October 1, 2023. Given the extreme volatility in current oil prices, there is a risk of a potential liquidity covenant breach under our RBL Facility, which would therefore require a covenant waiver to be obtained. Although we believe that we would be able to obtain waivers from the facility providers, the risk of not obtaining a waiver represents a material uncertainty that may cast doubt upon our ability to continue to apply the going concern basis of accounting. See "*Description of certain financing arrangements—RBL Facility*" and "*—Risks relating to our business—We may not be able to generate sufficient cash to comply with our financial covenants*, *fund our capital expenditures or sustain our operations*."

To mitigate oil price volatility, we monitor oil price sensitivity relative to our capital commitments and have a policy which allows hedging of our production. As of June 30, 2022, we have hedged a total of approximately 3.4 MMbbls and approximately 3.5 MMbbls for the six months ended December 31, 2022 and June 30, 2023, respectively, with an average floor price of approximately $60/bbl and approximately $57/bbl, respectively, and an average ceiling price of approximately $79/bbl and $77/bbl, respectively. We have also established an in-house trading and marketing function to enable us to enhance our ability to mitigate the exposure to volatility in oil prices. Our policy is to have flexibility to hedge oil prices up to a maximum of 75% of the next 12 months' productions on a rolling annual basis, up to 60% in the following 12 month period and 50% in the subsequent 12 month period. However, there can be no assurance that our existing hedging arrangements will be effective or sufficient, or that we will be able to effectively hedge declines in oil prices in the future. See "*—Risks relating to our business—Our commodity hedging activities may not be effective*." If prices for the oil we produce fall, this could materially and adversely affect our business, prospects, financial condition and results of operations.

Climate change legislation, the transition to net zero greenhouse gas emissions by 2050 and/or protests and shareholder actions against fossil fuel extraction may have a material adverse effect on our industry

Continued political, societal and commercial attention to climate change, the U.K.'s transition to a "net zero" economy by 2050 and the associated mitigation through regulation of greenhouse gases as part of this transition could have a material adverse effect on our prospects, financial condition and results of operations.

There have been numerous developments in climate change laws in recent years, at the international, regional and national level.

The Paris Agreement, adopted in December 2015 under the United Nations Framework Convention on Climate Change, sets the overall framework for coordinated global action in relation to climate change mitigation and adaptation. The Paris Agreement aims to limit global temperature increase to well below 2°C compared to pre-industrial levels, and commits the parties to pursue efforts to limit the temperature increase to 1.5°C. The IPCC's Sixth Assessment Report is currently underway and is due for release in 2022. This, in conjunction with the stocktake mechanism under the Paris Agreement, may create further pressure for mitigation action by parties to the Paris Agreement.

At the U.K. level, in June 2019, the U.K. amended the legally binding target set out in the Climate Change Act 2008 in order to implement the U.K.'s 2050 net-zero target. Further to this, the U.K.'s Sixth Carbon Budget was published by the Climate Change Committee ("**CCC**"), the government's independent advisor on climate change, in December 2020. The Sixth Carbon Budget provides the U.K. government with advice on the budget of greenhouse gases the U.K. can emit during the period 2033-2037. In addition to the 2050 net zero target, the CCC's recommended pathway requires a 78% reduction in U.K. territorial emissions between 1990 and 2035. The CCC states that meeting the Sixth Carbon Budget requires action across four key areas, namely (1) the expansion of low-carbon energy supplies (including the complete decarbonization of electricity by 2035 in a balanced net zero pathway), (2) the take-up of low-carbon solutions (including low carbon or electric boilers and vehicles), (3) reducing demand for carbon-intensive activities, and (4) land (and removals). In light of the U.K.'s net zero target, in March 2021 the U.K. Department for Business, Energy & Industrial Strategy ("**BEIS**") released the North Sea Transition Deal which sets out the plan for how the U.K.'s offshore oil and gas sector and the government will work together to deliver the skills, innovation and new infrastructure required to meet stretching greenhouse gas emissions reduction targets.

Taken together, these international, regional and national climate change laws and regulations establish the framework for the transition to net zero greenhouse gas emissions in the U.K. by 2050. However, the CCC notes that a major strengthening of U.K. policies is required to reduce emissions and achieve net zero.

Accordingly, additional laws and regulations are highly likely to be introduced to, amongst other things, reduce greenhouse gas emissions and the demand for fossil fuels and fossil fuel technologies, incentivize renewable and low-carbon energy and electric and low-carbon technologies, and transition to a net zero economy. For example, in relation to our operational emissions, there may be additional restrictions and/or a prohibition on the flaring (the ignition of gas) or venting (the release of unignited gas) of gas in non-emergency situations. Flaring and venting of gas are controlled processes to dispose of gas and are essential for emergency and safety purposes on oil and gas installations, and in situations where it may not be feasible for the gas to be used, exported or re-injected. The U.K. government has recently announced that it will introduce a "climate compatibility checkpoint" to determine whether future applications for oil and gas licenses in the North Sea align with wider climate change objectives, such as the reduction of emissions and sustainability. This, and a generally more active approach from regulators relating to climate issues, may make it more difficult for us to procure licenses in the future or make it more expensive or onerous to comply with existing licenses or to obtain regulatory consents for operational issues or new developments. While conventional oil and gas activities will play a role in the energy transition, laws, policies and regulations introduced to deliver net zero by 2050 may either directly or indirectly impact the demand for oil and gas and/or fossil fuel based technologies and products and have a material adverse effect on us. Such laws and regulations may result in substantial capital, compliance, operating and maintenance costs for us or our customers. In addition, there is a possibility that drilling in the North Sea might be restricted in general at some point in the future. This would mean that we would have to cease our operations in the North Sea altogether, which could have a material adverse effect on business, prospects, financial condition and results of operations.

Legal and regulatory changes may also increase the price of, or increase the scope and rate of relevant levies, charges or taxes on carbon, oil and gas, oil and gas products, or other greenhouse gases. It may also be the case that, owing to such laws and regulations, we may not be able to fully exploit all of our reserves. Furthermore, other regulatory changes may demand fuller disclosure and increased reporting, such as the introduction of new Listing Rule 9.8 will require us to include a statement in our annual financial report for the accounting period from January 1, 2021 onwards setting out whether our disclosures are consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures ("**TCFD**"), and to explain if we have not done so. The implementation of TCFD recommendations on governance, strategy, risk management and metrics and targets and other disclosure or reporting requirements could materially and adversely affect our cost structure. Increased reporting on our exposure to climate change-related risks could also make us less attractive to potential investors or lenders, making it more difficult or costly to raise capital. At this stage, while the net zero target is established, the rate of legislative change and the potential impact of such a broad range of laws, policies and regulations is difficult to accurately predict. Future international treaties, legislation or other government action may affect the trajectory and impact of such laws, policies and regulations. For example, the United Nations Climate Change Conference is set to occur in Egypt in November 2022 and may affect participating governments' policies regarding climate change in both the near- and long-term future.

As a company with operations in the United Kingdom, we are currently subject to the U.K. Emissions Trading Scheme ("**U.K. ETS**"). Under the U.K. ETS various industrial activities, including offshore oil exploration and production facilities incorporating combustion plants (including flaring) with aggregate thermal ratings of greater than 20 megawatts (thermal input) are regulated. As the U.K. ETS is a smaller carbon market than the European Union Emissions Trading Scheme, there is concern that there may be greater carbon price volatility in the U.K. ETS.

In addition, our operations in Malaysia are subject to Malaysia's environmental laws and regulations, such as the Environmental Quality Act 1974, which prohibits industrial activities which cause pollution without obtaining a valid license, and the Occupational Health and Safety Act 1974. The level of expenditure required to comply with such laws and regulations, including to obtain any license, permit or approval required under such laws and regulations, is difficult to accurately predict and may result in substantial capital and operating costs. Any amendments to current laws, regulations, licenses, permits or approvals could also have a material adverse effect on our operations and increase our cost structure. Additional requirements may also be enacted in the jurisdictions in which we choose to operate in the future.

In addition, we may be subject to activism, including from groups campaigning against fossil fuel extraction and climate change, which could negatively affect our reputation, dissuade investors from investing in our business, persuade shareholders to sell their holdings, encourage or require us to make decisions to reduce emissions or change business strategy in light of climate change concerns, dissuade contractors from working with us, reduce demand for our products, disrupt our operations or development programs, induce our employees and/or directors to cease working or acting for us or otherwise negatively impact our business. We may also be the subject of legal proceedings and strategic litigation, including that designed to constrain the extraction of oil and gas, impact on our various licenses, permissions or consents to operate or seek reparations for loss and damage in respect of climate change. Shareholders may also bring action, for example demanding greater transparency and fuller disclosures on climate change related risks, and requiring us to adapt our business strategy to mitigate these risks and provide a more resilient investment for shareholders.

The levels of our 1P and 2P Reserves and Contingent Resources, their quality and production volumes may be lower than estimated or expected

The 1P and 2P Reserves and Contingent Resources set forth in this Offering Memorandum represent estimates only and are based on our internal assessments and only the 1P and 2P Reserves have been audited by GaffneyCline. The standards utilized to prepare the 1P and 2P Reserves and Contingent Resources information set forth in this document are in accordance with resource definitions jointly set out by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts, and the European Association of Geoscientists & Engineers in June 2018 in the "Petroleum Resources Management System," which may be different from the standards of reporting adopted in the United States and other jurisdictions. Investors, therefore, should not assume that the data found in the reserves and resources information set forth in this Offering Memorandum is directly comparable to similar information that has been prepared in accordance with the reserve and resource reporting standards of other jurisdictions.

In general, estimates of economically recoverable oil reserves are based on a number of factors and assumptions made as of the date on which the reserves estimates were determined, such as geological and engineering estimates (which have inherent uncertainties), historical production from the properties, the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. Underground accumulations of hydrocarbons cannot be measured in an exact manner and estimates thereof are a subjective process aimed at understanding the statistical probabilities of recovery. The variables and assumptions upon which estimates of economically recoverable oil reserves depend include, among others, the following:

- production history from the properties compared with production from other comparable producing areas;
- interpretation of the available geological and geophysical data;
- quality and quantity of available data;
- geological and engineering estimates (which have inherent uncertainties);
- effects of regulations adopted by governmental agencies;
- future percentages of international sales;
- future oil and other commodity prices;
- capital investments;
- effectiveness of the applied technologies and equipment;
- future operating costs, tax on the extraction of commercial minerals, development costs and workover and remedial costs; and
- the judgment of the persons preparing the estimates.

As all reserve estimates are subjective, each of the following items may differ materially from those assumed in estimating reserves:

- the quantities and qualities of oil reserves that are ultimately recovered;
- the timing of the recovery of oil reserves;
- the production and operating costs incurred;
- the amount and timing of additional exploration and future development expenditures;
- future hydrocarbon sales prices; and
- decommissioning costs.

Many of the factors in respect of which assumptions are made when estimating reserves are beyond our control and therefore these estimates may prove to be incorrect over time. Evaluation of reserves necessarily involves multiple uncertainties. The accuracy of any reserves or resources evaluation depends on the quality of available information and oil engineering and geological interpretation. Exploration drilling, interpretation, testing and production after the date of the estimates may require substantial upward or downward revisions in our reserves or resources data. Moreover, different reserve engineers may make different estimates of reserves and cash flows based on the same available data. Actual production, revenues and expenditures with respect to reserves and resources will vary from estimates and the variances may be material. Therefore, potential investors should not place undue reliance on reserves or resources data contained herein or on any specific field, reservoir, fluid or production profile or reserve estimate.

The uncertainties in relation to the estimation of reserves summarized above also exist with respect to the estimation of Contingent Resources. The probability that 2C Resources will be economically recoverable is considerably lower than for 2P Reserves. Volumes and values associated with Contingent Resources should be considered highly speculative.

If the assumptions upon which the estimates of our oil reserves and resources have been based prove to be incorrect or if the actual reserves or recoverable resources available to us are otherwise less than the current estimates or of lesser quality than expected, we may be unable to recover and produce the estimated levels or quality of oil and other hydrocarbons set out in this Offering Memorandum and this may materially and adversely affect our business, prospects, financial condition and results of operations.

If we are unable to replace the 2P Reserves that we produce, our reserves and revenues will decline

Our future success depends on our ability to develop or acquire additional 2P Reserves that are economically recoverable, which is dependent on oil prices. See "—*Volatility and further decreases in oil prices could materially and adversely affect our business, prospects, financial condition and results of operations*". While well supervision and effective maintenance operations can contribute to sustaining production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and we target maturing fields that typically have fewer reserves than could be expected in new discoveries. Without continued successful exploration, development and acquisition activities, our reserves and revenues will decline as a result of our current reserves being depleted by production. Future increases in our reserves will depend not only on our ability to appraise, develop and explore our existing assets but also on our ability to select and acquire suitable assets either through awards at licensing rounds or through acquisitions. Any failure to successfully replace reserves could materially and adversely affect our business, prospects, financial condition and results of operations.

Our current strategy largely centers on increasing our 2P Reserves and 2C Resources through acquisitions and potential life extensions of relatively mature assets. For example, in October 2021 we completed the Golden Eagle Acquisition, which added approximately 18 MMboe to our 2P Reserves as of December 31, 2021. Although we continue to evaluate further acquisition opportunities, we will be highly selective in the acquisitions we pursue and over the medium term, particularly in light of the volatile oil-price environment, we intend to focus on strengthening our balance sheet.

As part of our strategy of acquiring relatively mature assets, we frequently hold assets with declining production that, prior to our ownership, have not been drilled, developed or maintained for significant periods of time. We use improved recovery methods to increase the production of oil at these fields, including the injection of water into formations to provide pressure support and sweep oil towards production wells and the injection of gas into production wells to facilitate lifting of oil and water. If our improved recovery methods do not allow for the extraction of oil in the manner or to the extent that we anticipate, our future results of operations and financial condition could be materially and adversely affected.

Successful acquisitions require an assessment of a number of factors, including estimates of recoverable reserves and resources, exploration potential, future oil prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and cannot be made with a high degree of accuracy. While we routinely perform due diligence reviews of all potential acquisition targets, such reviews will not reveal all existing or potential problems or liabilities. In addition, our review may not permit us to become sufficiently familiar with the assets or properties to fully assess their deficiencies and capabilities. We have not entered into any binding agreements, memoranda of understanding or other commitments in respect of any such opportunities, and there can be no assurances that we will be successful in identifying and completing further acquisitions. See "—*Risks relating to our business—There are risks inherent in our acquisitions of appraisal, development and production assets*."

In light of the increased regulatory environment in regards to environmental, social and governance factors in which banks operate and the volatility of oil prices, there has been a reduction in certain banks' willingness or ability to lend to entities in the oil and gas industry. Accordingly, there is a risk that even if we identify an appropriate acquisition target, we may not be able to secure financing on commercially acceptable terms, or at all.

Any failure to successfully replace our reserves, whether through further exploring and developing our existing assets or through the award or acquisition of additional assets, could materially and adversely affect our business, prospects, financial condition and results of operations.

We face drilling, exploration and production risks and hazards that may affect our ability to produce oil at expected levels, quality and costs and that may result in additional liabilities to us

Our oil production operations are subject to numerous risks common to our industry, including premature decline of reservoirs, invasion of water into producing formations, encountering unexpected formations or pressures, low permeability of reservoirs, contamination of oil and gas, blowouts, oil and other chemical spills, explosions, fires, equipment damage or failure, natural disasters, geological uncertainties, unusual or unexpected rock formations and abnormal geological pressures, uncontrollable flows of oil, gas or well fluids, adverse weather conditions, shortages of skilled labor, pollution and other environmental risks.

As all of our production is offshore, our facilities are also subject to hazards inherent in marine operations, such as capsizing, sinking, grounding, vessel collision and damage from natural catastrophes, severe storms or other severe weather conditions, the frequency and severity of which may be impacted by climate change. The offshore drilling we conduct could involve increased risks due to risks inherent in the nature of drilling in complicated and harsh environments and complex geological formations including blowouts, encountering formations with abnormal pressure and oil spills. In particular, our hub-based model requires that substantially all our production is produced through a limited number of offshore facilities, so any technical failure or accident involving these facilities could have a material adverse effect on our production from multiple fields and our resulting cash flow therefrom. Unplanned partial or full shutdowns could adversely impact our financial performance if such shutdowns require substantial costs to remediate or continue for an extended period of time and such outages coincide with a period of relatively higher prices with production only returning in a period of relatively lower prices. For example, in 2019, our Heather platform experienced a small fire while shut-down for repair work on the facility's compressors and, following an analysis that the costs and risks of remediation and restarting production outweighed the economic benefits of doing so, we decided not to re-start production at the platform, leading to shut-downs at the Heather and Broom fields. Similarly, following a precautionary shutdown and down-man for safety reasons at the Thistle platform, we decided not to re-start production at the platform, leading to shut-downs at the Thistle and Deveron fields. In 2020, we experienced an incident at PM8/Seligi whereby a detached riser resulted in a release of gas and a fire which initiated an emergency shutdown of this field. While partial operations resumed within two days, production only returned to normal levels early in 2022 when the damaged riser and pipeline was replaced. Such hazards could have a material adverse effect on our business, prospects, financial condition and results of operations.

We seek to maintain a high degree of operational control over production assets in our portfolio, and we continually assess the condition of our assets and operate extensive maintenance and inspection programs designed to minimize the risk of unplanned shutdowns and expenditure. However, if an accident or failure occurs, environmental damage, including biodiversity loss or habitat destruction, injury to persons and other species and organisms, loss of life, failure to produce oil in commercial quantities or an inability to fully produce discovered reserves could result. Such technical failure or accident may also result in unplanned expenditure, in particular where remediation may be dependent on suitable weather conditions offshore. Furthermore, we are not the operator of our Golden Eagle or Alba assets, limiting our ability to direct or control operations, the timing and performance of activities or the costs thereof. There could therefore be a delay by the relevant operator in responding to risks or hazards at the Golden Eagle Asset or Alba which could have a material adverse effect on our business, prospects, financial condition and results of operations.

These events could also cause substantial damage to our property and our reputation and put at risk some or all of our license interests, which enable us to explore and produce, and could result in us incurring fines or penalties, criminal sanctions against us and our management, as well as other governmental and third party claims. Consequent production delays and declines from normal field operating conditions and other adverse actions taken by host governments and third parties may result in revenue and cash flow levels being adversely affected. Moreover, should any of these risks materialize, we could incur legal defense costs, remedial costs and substantial losses, including those due to injury or loss of life, human health risks, severe damage to or destruction of property, natural resources and equipment, environmental damage, unplanned production outages, cleanup responsibilities, regulatory investigations and penalties, increased public interest in our operational performance and suspension of operations. Similar hazards and impacts from third party operations could also result in increased regulatory costs and operational restrictions impacting our operations.

We face uncertainty as to the success of project execution and delivery

Our success depends in part upon the successful execution and delivery of development and decommissioning projects and the efficient delivery of short-cycle, quick payback projects which are key features of our long-term strategy. Oil development activities are capital intensive and subject to financing limitations and successful outcomes cannot be assured. For example, we spent approximately $2.1 billion on the initial development of the complex, shallow, unconsolidated heavy oil field at Kraken, which came on stream in 2017. Many of our assets, including the Bressay and Bentley discoveries and PM409 PSC, along with our new energy and decarbonization initiatives at the Sullom Voe terminal, have future development potential which may expose us to project execution risks.

We have detailed controls, systems and monitoring processes in place in an effort to meet deadlines, control costs and adhere to and implement design concepts. We also engage third-party assurance experts to review, challenge and, where appropriate, make recommendations to improve the processes for project management, cost control and governance of major projects; however, development activities may also be subjected to unexpected problems and delays, and incur significant costs which can differ significantly from estimates, with no guarantee that such expenditure will result in the recovery of oil in sufficient quantities to justify our investments. We may be required to curtail, delay or cancel any development operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, breaches of security, title problems, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. Any such curtailment, delay or cancellation could delay or prevent production, which reduces cash flows and can lead to impairment charges. Many of our assets have future development potential which may expose us to risks.

In addition, our appraisal activities may not be successful or may incur unexpected costs that differ significantly from estimates. Appraisal and development activities involving the drilling of wells across a field may be unpredictable and may not result in the outcome planned, targeted or predicted, as only by extensive testing can the properties of an entire field be more fully understood. We may also be required to curtail, delay or cancel any drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, breaches of security, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

Much of our success is dependent on us bringing both re-developments and new developments of oil fields to production on budget and on schedule. Even if our development operations lead to wells that are productive, these wells may not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of our development plans does not assure a profit on the investment or recovery of drilling, completion and operating costs and drilling hazards and environmental damage can further increase the cost of operations to be recovered. In addition, various field operating conditions may also adversely affect production from successful wells including delays in obtaining governmental approvals, permits, licenses, authorizations or consents, shut-ins of connected wells, insufficient storage or transportation capacity or other geological and mechanical conditions.

In connection with our medium- to long-term business plan, we are assessing and delivering new energy opportunities to create a hub of growth in infrastructure and renewables through the repurposing of the Sullom Voe Terminal ("**SVT**") and associated infrastructure, focused on carbon capture and storage, electrification and green hydrogen. The repurposing of SVT, or entry into any other new business areas in the future, may expose us to additional business risks that are different from those that we have experienced to date. In particular, we expect demand for renewable energy sources to continue to grow in the coming years, including as a result of changes to regulatory regimes. However, this market may not grow as quickly or develop in a way that we expect. Our ability to successfully expand our business capabilities to enable this transition may be limited by many factors and we may not be successful in our efforts to estimate the financial effects and/or synergies of such a transition on our business. In addition, our focus on repurposing SVT may divert management attention, financial and human resources or other capabilities away from our existing business or require additional expenditures. Such developments could have a material adverse effect on our business, results of operations and financial condition.

We carry out business in a highly competitive industry

The oil industry is highly competitive, including in our key jurisdictions of operation, the UKCS and Malaysia. The key areas in respect of which we face competition include:

- engagement of third-party service providers whose capacity to provide key services may be limited;
- purchasing, leasing, hiring, chartering or other procuring of equipment that may be scarce;
- acquisition of existing hydrocarbon assets;
- acquisition of exploration and production licenses, or interests in such licenses, at auctions or sales run by governmental authorities;
- ability to sell assets;
- access to key skilled personnel;
- differentiating technologies;
- access to bank lending and bond market capacity; and
- access to capital markets.

Competition in our markets is intense and depends, among other things, on the number of competitors in the market, their financial power, their degree of geological, geophysical, engineering and management expertise, their degree of vertical integration, pricing policies, their ability to develop properties on time and on budget, their ability to select, acquire and develop reserves and their ability to foster and maintain relationships with host governments of the countries in which they have assets. We operate in a mature industry and our competitors include well-established entities with greater technical, physical and financial resources. When looking at acquisition opportunities, we also compete with major national and state-owned enterprises and may also compete with private equity backed companies, which typically possess significant financial resources and are able to offer attractive and favorable prices to sellers. We rely on equity and debt financing to fund acquisitions, which may not always be available and larger and better capitalized competitors may be in a position to outbid us for particular licenses and acquisition opportunities. The effects of operating in a competitive industry may include higher than anticipated prices for the acquisition of licenses or assets, the hiring by competitors of key management or other personnel, competitors being able to secure rigs for drilling operations preferentially to us and restrictions on the availability of equipment or services.

Larger and better capitalized competitors may also be better able to withstand sustained periods of suppressed oil prices. They may also be more successful in diversifying and reducing risk and may be able to absorb the burden of any changes in law and regulations more easily than us, which would adversely affect our competitive position. In addition, many of our competitors have been operating for a much longer time and have demonstrated the ability to operate through industry cycles.

If we are unsuccessful in competing against other companies, our business, prospects, financial condition and results of operations could be materially and adversely affected.

The ongoing military action between Russia and Ukraine could adversely affect our business, financial condition and results of operations

On February 24, 2022, Russian military forces launched a military action against Ukraine, and sustained conflict and disruption in the region is likely. Although the length, impact and outcome of the ongoing military conflict in Ukraine is highly unpredictable, this conflict could lead to significant market and other disruptions, including significant volatility in commodity prices, financial markets, supply chain interruptions, changes in consumer or purchaser preferences as well as increase in cyberattacks and espionage. While our operations are in the UKCS and Malaysia, our business, prospects, financial condition and results of operations depend substantially upon oil prices. See "*—Volatility and further decreases in oil prices could materially and adversely affect our business, prospects, financial condition and results of operations*". After the invasion into Ukraine by Russian troops on February 24, 2022, oil prices rose to \$105/bbl, on expectations that sanctions by western countries against Russia would cripple energy exports.

Russia's annexation of Crimea, recognition of two separatist republics in the Donetsk and Luhansk regions of Ukraine and subsequent military action against Ukraine have led to sanctions being levied by the United States, the European Union, the United Kingdom, Canada, Switzerland, Japan and other countries against Russia, Belarus, the Crimea Region of Ukraine, the so-called Donetsk People's Republic and the so-called Luhansk People's Republic, including, among others, the agreement to remove certain Russian financial institutions from the Society for Worldwide Interbank Financial Telecommunication ("**SWIFT**") payment system, which can significantly hinder the ability to transfer funds in and out of Russia. For further details on sanctions, see also "*—Risks relating to our business—We are exposed to the risk of violations of anti-corruption laws, related sanctions or other similar regulations*". The situation is rapidly evolving as a result of the conflict in Ukraine, and the United States, the European Union, the United Kingdom and other countries may implement additional sanctions, export controls or other measures against Russia or other countries, regions, officials, individuals or industries in the respective territories. Such sanctions and other measures, as well as any potential responses from Russia or other countries to such sanctions, tensions and military actions, could adversely affect the global economy and financial markets and could adversely affect our business, financial condition and results of operations.

We are actively monitoring the situation in Ukraine and assessing its impact on our business, including its impact on oil prices. We have no way to predict the progress or outcome of the conflict in Ukraine or its impacts in Ukraine, Russia or Belarus as the conflict, and any resulting government reactions, are rapidly developing and beyond our control. The extent and duration of the military action, sanctions and resulting market disruptions could be significant and could potentially have substantial impact on the global economy and our business for an unknown period of time. Any of the abovementioned factors could affect our business, financial condition and results of operations. Any such disruptions may also magnify the impact of other risks described in this Offering Memorandum.

The results of the United Kingdom's withdrawal from the European Union may have a negative effect on economic conditions, financial markets and our business

A majority of our producing assets are located in the UKCS, within the territory of the United Kingdom. Following a national referendum and enactment of legislation by the government of the United Kingdom, the United Kingdom formally withdrew from the European Union and ratified a trade and cooperation agreement governing its future relationship with the European Union, which was applied provisionally from January 1, 2021 and entered into force on May 1, 2021. Although this agreement provides for, among other things, the free movement of goods between the United Kingdom and the European Union, continued legal uncertainty and potentially divergent national laws and regulations in relation to financial laws and regulations, tax and free trade agreements, immigration laws, and employment laws may adversely affect economic or market conditions in the United Kingdom, the European Union or globally, which could contribute to instability in global financial and foreign exchange markets and could also impair our ability to access capital or transact business and/or to attract and retain qualified personnel. Asset valuations, currency exchange rates and credit ratings have been and may continue to be subject to increased market volatility. Lack of clarity about future United Kingdom laws and regulations as the United Kingdom determines which European Union laws to replace or replicate, including financial laws and regulations, tax and free trade agreements, tax and customs laws, intellectual property rights, environmental, health and safety laws and regulations, immigration laws, employment laws and transport laws could decrease foreign direct investment in the United Kingdom, increase costs, disrupt supply chains, depress economic activity and restrict our access to capital.

All or any combination of the foregoing could negatively affect our business, prospects, operations and revenues, and the broader economic environment on which our industry depends.

We may not be able to keep pace with technological developments in our industry

The oil industry is characterized by significant technological advancements and introductions of new services using new technologies. As others use or develop new technologies, we may be placed at a competitive disadvantage or may be forced by competitive pressures to implement those new technologies at substantial costs. In addition, other oil companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages, which may in the future allow them to implement new technologies before we can. We may not be able to respond to these competitive pressures or implement new technologies on a timely basis or at an acceptable cost, particularly due to our strategy of acquiring relatively mature assets. If one or more of the technologies we use now or in the future were to become obsolete, our business, prospects, financial condition and results of operations could be materially and adversely affected. In addition, any new technology that we implement may have unanticipated or unforeseen adverse consequences, either to our business or the industry as a whole.

Risks relating to our business

We may not be able to generate sufficient cash to comply with our financial covenants, fund our capital expenditures or sustain our operations

Historically, significant leverage has been required to fund our growth in recent periods of low oil prices. We currently have a significant amount of outstanding debt with substantial debt service requirements. As of June 30, 2022, on a *pro forma* basis after giving effect to the Transactions, we would have had an aggregate principal amount of $1,012.5 million of debt outstanding, $305.0 million of which would have been unsecured indebtedness represented by the Notes, $136.1 million of which would have been unsecured indebtedness represented by the 7% Retail Notes and $163.1 million of which would have been unsecured indebtedness represented by the 9% Retail Notes. As of the same date, we had $115.0 million drawn and, after allowing the letter of credit utilization of $52.7 million, $97.3 million remained available for drawdown under the RBL Facility. We will be permitted to borrow substantial additional indebtedness, including secured debt, in the future under the terms of the Indenture. See "*Description of certain financing arrangements—RBL Facility*".

We believe that, even under a reasonable worst-case scenario, we will be able to comply with the financial covenants and liquidity testing in our senior debt arrangements for at least 12 months from the date of this document but if market conditions or production volumes deteriorate over the longer term, this could impact our ability to service our debt in the longer term.

Our liquidity requirements also arise from our need to fund capital expenditure and working capital. A significant part of our capital expenditures are contracted or necessary in order to maintain our business. For the twelve months ended June 30, 2022, our cash capital and abandonment expenses were $145.9 million.

Our ability to make payments on and refinance our indebtedness and to fund our capital expenditures, working capital requirements and other expenses will depend on our future operating performance and ability to generate cash from operations. Our ability to generate cash from operations is subject, in large part, to general competitive, legislative, regulatory and economic factors that are beyond our control, including the price of crude oil. This risk is not expected to inhibit our ability to meet our present working capital requirements or our working capital requirements for at least 12 months from the date of this Offering Memorandum but may impact us over the longer term.

We are continuing to enhance our financial position through maintaining a focus on controlling and reducing costs through supplier renegotiations, assessing counterparty credit risk, hedging and trading and shutting down uneconomic operations and rationalization. However, if market conditions deteriorate or production falls below expectations, this could affect our ability to fund financial commitments, maintain adequate cash flow and liquidity and/or reduce costs in the longer term which could have a material adverse effect on our business, financial condition, prospects and/or results of operations.

We may not be able to repay the Notes currently scheduled to be repayable

The 7% Retail Notes have a final maturity date of October 15, 2023 and, as of June 30, 2022, there was \$136.1 million aggregate principal amount outstanding, excluding accrued interest and IFRS 9 EIR adjustment of \$3.8 million. The 9% Retail Notes, which were issued on April 27, 2022, have a final maturity date of October 27, 2027 and, as of June 30, 2022, there was \$163.1 million aggregate principal amount outstanding, excluding accrued interest and IFRS 9 EIR adjustment of \$2.2 million.

Our ability to refinance or amend and extend the 7% Retail Notes or the 9% Retail Notes on acceptable terms or at all is not assured. The success of any such refinancing or amendment and extension will depend on a number of factors, including our financial condition and prospects at the time, market conditions at the time and our ability to obtain holders' consent to any such extensions and amendment and/or successfully complete a new bond offering on terms attractive to investors, taking account of the willingness of investors to subscribe for new bonds which will rank junior to the rights of lenders under the RBL Facility Agreement and with a maturity date such that they will only be repayable after the RBL Facility.

All of our production comes from a small number of offshore assets in the UKCS and Malaysia, making us vulnerable to risks associated with having significant production in two countries and only a small number of assets

Our assets are concentrated in the UKCS and Malaysia around a limited number of infrastructure hubs and existing production (principally only oil) is from mature fields. This amplifies our exposure to key infrastructure (including aging pipelines and terminals), political/fiscal changes and oil price movements.

Our UKCS assets accounted for 87.3% (43,422 boepd) and our Malaysia assets accounted for 12.7% (6,304 boepd), respectively, of our production in the six months ended June 30, 2022. A significant proportion of our current production is from Kraken and Magnus. In the year ended December 31, 2019, Kraken and Magnus produced 25,172 and 18,267 net daily average boepd, respectively, comprising 36.7% and 26.6%, respectively, of our total production. These proportions increased in the year ended December 31, 2020, when Kraken and Magnus produced 26,450 and 17,416 net daily average boepd, respectively, comprising 44.7% and 29.5%, respectively, of our total production. In the year ended December 31, 2021, Kraken and Magnus produced 21,964 and 11,870 net daily average boepd, respectively, comprising 49.5% and 26.7%, respectively, of our total production. In the six months ended June 30, 2021 and 2022, Kraken produced 23,690 and 19,527 net daily average boepd, comprising 51.3% and 39.3%, respectively, of our total production in the relevant period. In the six months ended June 30, 2021 and 2022, Magnus produced 13,847 and 12,754 net daily average boepd, comprising 30.0% and 25.6%, respectively, of our total production in the relevant period. The Golden Eagle Acquisition reduces our reliance on Kraken and Magnus, as demonstrated in the six months ended June 30, 2022 during which the Golden Eagle Area Development accounted for approximately 14.2% of total production.

We are and will still continue to be, disproportionately exposed to the impact of regional supply and demand factors, delays or interruptions of production from wells caused by processing or transportation capacity constraints, governmental regulation, political changes, availability of equipment, facilities, personnel or services, infrastructure disruptions, natural disasters, weather events or interruption of the processing or transportation of oil as a result of our geographic concentration of assets, particularly in the UKCS. The UKCS and Malaysia are prone to difficult weather conditions that can in some cases prevent us from shipping supplies, personnel and fuel to our facilities, each of which can cause production shutdowns or slowdowns.

Unusually difficult weather conditions may lead to a heightened risk of the floating facility at Kraken detaching from its moorings and difficulties in supplying this facility with fuel and there can be no assurances that the floating facility will not be affected in the future. Adverse changes in weather and natural hazards, including the occurrence of monsoon seasons, typhoons and tsunamis in Malaysia, may cause damage to our vessels resulting in delays or suspension in our operations. In addition, if mechanical problems, storms or other events curtail a substantial portion of our production in the UKCS or cause damage to any of our facilities, our results of operations and financial condition could be adversely affected.

Mechanical problems, accidents, oil leaks or other events at any of our installations, floating facility or the related pipeline systems or subsea infrastructure or third-party operated infrastructure on which we rely, may cause a widespread, unexpected production shutdown of our operations in the UKCS. Our hub-focused model means that we leverage our infrastructure to service multiple fields, which magnifies the impact of any unexpected shutdowns at our infrastructure. Most of our producing assets in the UKCS are connected via pipeline systems or subsea tieback so that we export oil from multiple fields to shore. For example, in 2019 our Heather platform experienced a small fire while shut-down for repair work on the facility's compressors and, following an analysis that the costs and risks of remediation and restarting production outweighed the economic benefits of doing so, we decided not to re-start production at the platform, leading to shut-downs at the Heather and Broom fields. Similarly, following a precautionary shutdown and down-man for safety reasons at the Thistle platform, we decided not to re-start production at the platform, leading to shut-downs at the Thistle and Deveron fields.

Due to the concentration of our assets in two regions, a number of our assets could experience any of the above conditions at the same time, resulting in a relatively greater impact on our results of operations than might be experienced by companies that have a more diversified portfolio of producing assets and wider geographic exposure. We would also be disproportionately affected by a decrease in production volumes or reserve estimates at one of our assets. Such circumstances could have a material adverse effect on our business, prospects, financial condition and results of operations. See also "*—Our business is subject to licensing and other regulatory requirements, which are subject to change, in the countries in which we operate, and we are subject to the risks of licenses or other agreements being withheld, suspended, revoked or terminated and of our failing to comply with relevant licenses, agreements or other regulatory requirements*."

Significant expenditure is required to maintain operability and operations integrity, we rely upon infrastructure which is old and/or operated and owned by third parties, and improper maintenance and repair could harm our operations

As our strategy depends in part on acquiring relatively mature assets, we frequently own assets which utilize equipment that has had substantial prior use. In addition, many of the assets, prior to our ownership, had not been drilled, developed or maintained for significant periods of time and in some cases the equipment at such assets had been subject to lengthy periods out of commercial operation. Such equipment can be subject to higher levels of wear and tear, be subject to a greater risk of failure and outage, give rise to higher maintenance costs and may need to be replaced more quickly than newer assets. There are inherent risks involved with the operation of this equipment, and any unexpected failures or outages leading to additional expenses could have a negative impact on our production in both UKCS and Malaysia. In addition, part of our business strategy is to re-use, retrofit or refurbish producing assets where possible to maximize the efficiency of our operations while avoiding significant expenses associated with purchasing new equipment. There can be no assurances that such re-use, retrofitting or refurbishment will be commercially feasible to undertake in the future and there can be no assurances that we will not face unexpected costs during the re-use, retrofitting or refurbishment process. There can be no assurances that we will not be subject to such unexpected costs in the future and such costs could have a material adverse effect on our results of operation and financial condition.

Our current production in the UKCS also relies on some third-party owned and controlled infrastructure that is old. Our limited ability to maintain or repair infrastructure that we do not own or operate may exacerbate the risks of relying on mature assets described above. The Ninian pipeline system, for instance, was first constructed in the 1970s. We rely on the Ninian pipeline system for transport of oil produced at Magnus. As the Ninian pipeline systems have been extensively used, it requires regular maintenance to maintain efficiency. The pipeline systems may also need to be shut down to stop hydrocarbon leaks. In Malaysia, crude oil from PM8/Seligi is transported via the Tapis platform (operated by ExxonMobil) to the Terengganu Crude Oil Terminal (operated by PETRONAS Carigal Sdn. Bhd.) for processing and sale to the domestic market or export. Our ability to maintain and repair infrastructure which we do not operate is limited. If the owners or operators of these pipelines, as well as of other, old third-party infrastructure upon which our operations rely, fail to adequately maintain their integrity, we may not be able to efficiently deliver oil to onshore terminals for sale.

There are also extensive maintenance obligations in respect of assets operated by us. For example, a significant proportion of our current production in the UKCS passes through the Sullom Voe Terminal, an oil terminal located in the Shetland Islands that receives oil from more than 30 fields from the Brent, Ninian and Clair pipeline systems. We also operate (on behalf of owner BP) gas reception facilities located at the Sullom Voe Terminal which receives gas produced from the BP operated Clair, Foinaven and Quad 204 fields. Gas is treated to grid specification and exported to market via the East of Shetland Pipeline System ("**EOSPS**"), which we operate. We rely on third-party suppliers for most of our information technology infrastructure, including cloud services, which we may be required to update from time-to-time. If one or more of the technologies we use now or in the future were to become obsolete, our business, prospects, financial condition and results of operations could be materially adversely affected. In addition, any changes in existing technology or the implementation of new technology, such as moving our systems to the cloud, may have unanticipated or unforeseen adverse consequences, such as being incompatible with our existing information technology infrastructure, which could impact our business, financial condition and results of operations. If the infrastructure which we rely on experiences mechanical problems, an explosion, adverse weather conditions, a cyber-attack, a terrorist or piracy attack or any other event that causes an interruption in operations or a shutdown, our ability to transport our oil could be severely affected.

Any decrease in our ability to transport our oil or the efficiency of our operations could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our use of infrastructure is also subject to tariff charges which are required to be paid in order to maintain continued operations. These charges can be substantial and the per barrel charge of third-party infrastructure is not subject to our direct control. Our tariff costs have decreased in recent years from approximately $3.0/bbl on average in 2019 to $2.6/bbl on average in the six months ended June 30, 2022, in each case on a working interest basis. However, there can be no assurances tariffs will not increase. A significant increase of our tariff charges could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our business is subject to licensing and other regulatory requirements, which are subject to change, in the countries in which we operate, and we are subject to the risks of licenses or other agreements being withheld, suspended, revoked or terminated and of our failing to comply with relevant licenses, agreements or other regulatory requirements

Our current operations are, and our future operations will be, subject to licenses, approvals, authorizations, consents and permits from governmental authorities for exploration, development, construction, operation, production, marketing, pricing, transportation and storage of oil and other hydrocarbons, taxation and environmental and health and safety matters. Relevant legislation provides that fines may be imposed and a license may be suspended or terminated if a license holder, or party to a related agreement, fails to comply with its obligations under such license or agreement, or fails to make timely payments of levies and taxes for the licensed activity, provide the required geological information or meet other reporting requirements. It may from time to time be difficult to ascertain whether we have complied with obligations under licenses as the extent of such obligations may be unclear or ambiguous and regulatory authorities may not be forthcoming with confirmatory statements that work obligations have been fulfilled, which can lead to further operational uncertainty. In addition, we and our commercial partners, as applicable, have obligations to develop the fields in accordance with specific requirements under certain licenses and related agreements, field development plans, laws and regulations. If we or they were to fail to satisfy such obligations with respect to a specific field, the license or related agreements for that field may be suspended, revoked or terminated.

With regard to our operations in the UKCS, U.K. authorities are typically authorized to, and do from time to time, undertake inspections to verify compliance by us or our commercial partners, as applicable, with relevant laws and the licenses or the agreements pursuant to which we conduct our business. The views of the relevant government agencies regarding the development and operation of the fields that we or our commercial partners operate or the compliance with the terms of the licenses pursuant to which we conduct such operations may not coincide with our views, which might lead to disagreements that may not be resolved. The U.K. government has also recently announced that it will introduce a "climate compatibility checkpoint" prior to awarding future oil and gas licenses in the North Sea to ensure that licenses awarded align with wider climate change objectives. This may make it more difficult for us to procure licenses in the future or make it more expensive or onerous to comply with existing licenses.

With regard to our operations in Malaysia, upstream petroleum activities in Malaysia are primarily regulated by Petroliam Nasional Berhad ("**PETRONAS**"), which derives its powers from the Petroleum Development Act 1974 and the Petroleum Regulations 1974. Pursuant to the terms of the PM8/Seligi production sharing contract with PETRONAS (the "**PM8/Seligi PSC**"), PETRONAS regulates the petroleum operations through its approval of well locations, area and field development plans, production operations, annual work programs and budget, and procurement of goods and services above a certain monetary threshold. PETRONAS' approval is also required for the disclosure of any data from the PM8/Seligi PSC contract areas, for any public announcement or for the sale or assignment of any of the interest in the PM8/Seligi PSC. The PM8/Seligi PSC and the PETRONAS Procedures and Guidelines for Upstream Activities contain strict provisions relating to procurement of goods and services. The Petroleum Regulations 1974 stipulates that all goods and services for upstream petroleum operations in Malaysia can only be supplied by companies which are licensed by PETRONAS. Non-compliance with the guidelines or procurement of goods and/or services from non-licensed companies would bar the relevant PSC contractor from recovering their costs under a PSC. All PSC accounts are subject to annual audits by PETRONAS. Any contractors or consultants hired by us under a PSC who fail to fulfill their obligations could cause us to be in breach under a PSC.

Our rights to exploit many of our oil and gas assets are limited in time. There can be no assurance that such rights can be extended or that new rights can be obtained to replace any rights that expire. A portion of the licenses pursuant to which we conduct operations are solely exploration licenses, and as such the assets which are the subject of such licenses are not currently producing, and may never produce commercial quantities of oil. Rather, these licenses have a limited life before we are obliged to seek to convert the license to a production license, extend the license or relinquish the license area. If hydrocarbons are discovered during the exploration license term, we or our commercial partners, as applicable, may be required to apply for a production license before commencing production. If we or our commercial partners, as applicable, comply with the terms of the relevant license, we would normally expect that a production license would be issued; however, no assurance can be given that any necessary production licenses will be granted by the relevant authorities.

Each of the exploration and production licenses or related agreements pursuant to which we conduct operations have incorporated detailed work programs which are required to be fulfilled, normally within a specified timeframe. These may include seismic surveys to be performed, wells to be drilled, production to be attained, limits to production levels and construction matters. Material non-compliance with these work programs within the required timeframes, or failure to successfully negotiate extensions to the time permitted to carry out these work programs, could result in the premature termination, suspension or withdrawal of licenses and our losing the associated resource potential therein. It may also restrict the ability to obtain new licenses in the relevant jurisdictions.

The suspension, revocation, withdrawal or termination of any of the licenses or related agreements pursuant to which we conduct business, as well as any delays in the continuous development of or production at our fields caused by the issues detailed above, or by similar issues caused by a third-party incident (such as a significant spill), could materially and adversely affect our business, prospects, financial condition and results of operations. In addition, failure to comply with the obligations under the licenses or agreements pursuant to which we conduct business, whether inadvertent or otherwise, may lead to fines, penalties, restrictions, withdrawal of licenses and termination of related agreements, which could materially and adversely affect our business, prospects, financial condition and results of operations.

Moreover, we are subject to extensive government laws and regulations governing prices, taxes, royalties, allowable production, waste disposal, pollution control and similar environmental laws, the export of oil and other hydrocarbons and many other aspects of the oil and gas business. These laws and regulations are subject to change as the political and regulatory landscape evolves, and any amendments to or reforms of the laws and regulations to which we are subject could make compliance with them more challenging, onerous or expensive. The actions of present or future governments in the countries in which we do business or of governments of other countries in which we may acquire assets in the future may materially and adversely affect our business, prospects, financial condition and results of operations.

Our oil exploration and production operations are principally subject to the laws and regulations of the United Kingdom and Malaysia, including those relating to health and safety and the production, pricing and marketing of oil. The grant, continuity and renewal of the necessary approvals, permits, licenses and contracts, including the timing of obtaining such licenses and the terms on which they are granted, are subject to the discretion of the relevant governmental and local authorities in the United Kingdom and Malaysia.

The United Kingdom's transition to a 'net zero' economy by 2050 is likely to have an impact on the licensing and other regulatory requirements and obligations applying to oil and gas companies. In particular, a new legally binding strategy was adopted at the end of 2020, requiring oil and gas companies to take steps to assist the government to achieve the net zero carbon target, and the United Kingdom's government is currently undertaking a review of the oil and gas regime, which could result in further changes relating to decarbonization and licensing or other regulatory requirements.

Similarly, the Infrastructure and New Energy segment is also subject to licensing and regulatory requirements. For example, we have secured exclusivity from the Shetland Islands Council to progress new energy opportunities on the site, which we believe means we are well placed to deliver on our new energy ambitions in cooperation with our potential strategic delivery partners and are currently exploring strategic operational and financial partnerships. Additionally, in May 2022, we made two carbon capture and storage ("**CCS**") license area nominations in locations which are both accessible from our existing infrastructure. These were both accepted and we made two applications in respect of these license areas in the NSTA UK offshore CCS licensing round, which closed on September 13, 2022 with results expected to be announced in the first quarter of 2023. However, our ability to progress our medium- to long-term plans to repurpose SVT is dependent on our ability to obtain, maintain and comply with these licenses and other regulatory requirements. There can be no assurance that we will be able to maintain our CCS licenses nor obtain further licenses at SVT.

If we are unable to obtain, maintain or comply with necessary licenses or comply with other applicable regulatory requirements, or if any of the licensing or other regulatory requirements to which we are subject are amended in a way that makes compliance with them more difficult or expensive, this could have a material adverse effect on our business, prospects, financial condition and results of operations.

There are risks inherent in our acquisitions of appraisal, development and production assets

Prior to entering into an agreement to acquire an oil and gas asset (or companies holding such assets), we perform due diligence on the proposed acquisition. However, reviews of properties prior to acquisitions in the oil industry are inherently incomplete, even if consistent with market practice. Even an in-depth review of all properties and records may not reveal existing or potential problems, nor will it always permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. Physical inspections may not be performed on every well and other infrastructure, and structural or environmental problems are not necessarily observable even when an inspection is undertaken. There can be no assurance that the due diligence carried out by ourselves or by third parties on our behalf in connection with any acquisition will reveal all of the risks associated with that asset, or the full extent of such risks. To the extent that we or third parties acting on our behalf underestimate or fail to identify risks and liabilities associated with an acquisition or overestimate the value of an acquisition to our business, we may be subject to one or more of the following risks:

- environmental, structural or operational defects or liabilities requiring remediation or decommissioning;
- an inability to obtain (or secure the transfer of) or maintain licenses or other relevant agreements enabling us to use or develop the asset as intended;
- defects in title;
- the asset containing fewer oil reserves than anticipated or not being commercially viable to develop; and
- acquiring assets that are not consistent with our strategy or that fail to perform in accordance with our expectations.

We have historically undertaken a number of acquisitions of oil and gas assets (and of companies holding such assets) as part of our strategy of maintaining and growing our reserves. We may consider further acquisition opportunities inside and outside of the UKCS and Malaysia, in respect of assets that fit within our overall strategy or which enhance our overall reserve base and production capability. However, there can be no assurances that we will be successful in identifying and completing further acquisitions. For example, we may be required to assume pre-closing liabilities with respect to an acquisition, including known and unknown environmental and decommissioning liabilities, and may acquire interests in properties on an "as is" basis without recourse to the seller of such interest. In addition, equity or debt financing may not be available to us in order to complete acquisitions in the future. There may also be additional risks associated with any acquisitions outside our core geographies in the UKCS and Malaysia, such as a potential lack of synergies with existing operations or regulatory or production risks associated with a new geography.

If any other of our historic or future acquisitions fail to perform as expected, or give rise to significant unforeseen costs or liabilities, this could have a material adverse effect on our business, prospects, financial condition and results of operations.

We conduct most of our operations with commercial partners which may increase the risk of delays, additional costs and the suspension or termination of the licenses or the agreements that govern our assets

We have entered into business ventures with commercial partners in respect of most of our assets. While we are typically the operator of our assets, we require cooperation from our commercial partners in obtaining approval of field development plans and in funding the development of and production from an asset. The relevant operating agreement typically provides that the project partner(s) must be consulted or that they must provide their consent in relation to significant matters. Where there is a lack of cohesive collaboration between operators, such behavior can lead to increased costs and delays and, ultimately, the poorer recovery of oil. There is also a risk that a commercial partner with interests in our properties may elect not to participate in certain activities relating to those properties that require that party's consent (including decisions relating to drilling programs, decisions on the number, identity and sequencing of wells, appraisal and development decisions and decisions relating to production). In these circumstances, it may not be possible for such activities to be undertaken by us alone or in conjunction with other commercial partners at the desired time or at all, or otherwise, to the extent permitted, such activities may be undertaken with us bearing a greater proportion of the cost involved in the project.

Currently our only non-operated producing assets are Alba, in relation to which we are dependent on our commercial partner, Ithaca Energy Limited, which acts as operator, and Golden Eagle Area Development, in relation to which we are dependent on our commercial partner, CNOOC, which acts as operator. Thus we are not able to direct or control operations, the timing and performance of activities or the costs thereof at Alba or the Golden Eagle Area Development as we often would if we were the operator. The terms of our agreements with operators generally impose standards and requirements in relation to the operatorship of the relevant oil field. However, there can be no assurance that the operator will observe such standards or requirements.

To the extent that our operations are delayed, incur additional costs or any relevant licenses or agreements that govern our assets were to be suspended or terminated as a result of our dependence on commercial partners, this could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our exit strategy in relation to any particular hydrocarbon interest may also be subject to the prior approval of our commercial partners. The terms of operating agreements often require commercial partners to approve of an incoming participant to the business venture or provide our commercial partners with preemption rights with respect to the transfer of our interest, either of which could affect our ability to sell or transfer an interest

We may suffer unexpected costs or other losses if a commercial partner does not meet obligations under agreements governing our relationship. For example, commercial partners who have invested in our properties may default in their obligations to fund capital, or other funding obligations, in relation to such properties. In such circumstances, we may be required under the terms of the relevant operating agreement to contribute all or part of any such funding shortfall, regardless of the percentage interests that we agreed with such commercial partner under such arrangements. Additionally, we may be required to increase our ownership stake and fundraising commitments in respect of assets to the extent our commercial partners exit their investment sooner than anticipated. For example, in respect of Kraken, as a result of our then-partner First Oil PLC going into administration, we were obliged to take up an additional 10.5% interest in Kraken in February 2016, which at the time increased the proportion of the development costs on Kraken that we were required to bear. There are also credit risks of commercial counterparties including exposures in respect of outstanding receivables. As of December 31, 2021, there were $nil of joint venture receivables past due compared to $2.5 million as of December 31, 2020, and $0.1 million as of December 31, 2019. We trade only with recognized international oil and gas operators and recognize that we must accept a degree of exposure to the creditworthiness of partners and evaluate this aspect carefully as part of every investment decision.

We may also be subject to claims by our commercial partners regarding potential non-compliance with our obligations. It is also possible that our interests, on the one hand, and those of our commercial partners, on the other, may not be aligned, resulting in possible project delays, additional costs or disagreements. Failure by our commercial partners to comply with obligations under relevant licenses or the agreements pursuant to which we operate may lead to fines, penalties, restrictions and withdrawal of licenses or the agreements under which we operate. If any of our commercial partners becomes insolvent or otherwise unable to pay debts as they fall due, licenses or agreements awarded to them may revert to the relevant governmental authority who will then reallocate the license. Although we anticipate that the relevant governmental authority may permit us to continue operations at a field during a reallocation process, there can be no assurances that we will be able to continue operations pursuant to these reclaimed licenses or that any transition related to the reallocation of a license would not materially disrupt our operations or development and production schedule. The occurrence of any of the situations described above could materially and adversely affect our business, prospects, financial condition and results of operations.

In respect of the Golden Eagle Asset, we are subject to the terms of operating agreements which may contain provisions prohibiting a disposal of the Golden Eagle Asset without the consent of our commercial partners.

We rely on relatively few customers for a significant portion of our outstanding trade and other receivables

We are subject to customer concentration risk as a result of our reliance on relatively few numbers of customers for a significant portion of our revenues. For the year ended December 31, 2021, we had one customer accounting for 84% of outstanding trade and other receivables as a result of purchasing cargoes near the year end. This position was settled in 2022. Additionally, in the year ended December 31, 2021, revenue from two customers relating to the North Sea operating segment each exceeded 10% of our consolidated revenue arising from sales of crude oil.

If some or all of these customers which account for a significant portion of our revenues were to cease to continue to do business with us, this could have a material adverse effect on our business, prospects, financial condition and results of operations.

We are subject to counterparty credit risk in respect of our outstanding trade and other receivables

We are subject to agreements with a number of contractual counterparties in relation to the sale and supply of our production volumes. Therefore we are subject to the risk of a counterparty not meeting its obligations under such agreements, such as delayed payment for delivered production volumes or counterparty default. Such delays or defaults could have a material adverse effect on our business, prospects, financial condition and results of operations.

Failure by us, our contractors or our primary offtaker to obtain access to necessary equipment and transportation systems could materially and adversely affect our business, prospects, financial condition and results of operations

We rely on oil field suppliers and contractors to provide materials and services in conducting our exploration and production activities. Any competitive pressures on the oil field suppliers and contractors, or substantial increases in the worldwide prices of commodities, such as steel, could result in a material increase of costs for the materials and services required to conduct our business. Such equipment, personnel and services can be scarce and may not be readily available at the times and places required. Future increases could have a material adverse effect on our operating income, cash flows and borrowing capacity and may require a reduction in the carrying value of our properties, our planned level of spending for exploration and development and the level of our reserves. Prices for the materials and services we depend on to conduct our business may not be sustained at levels that enable us to operate profitably. In certain cases, we may extend or provide financing to such parties in connection with the equipment or services they provide, sell or lease to us. See "*Management's discussion and analysis of financial condition and results of operations—Qualitative and quantitative disclosures about market risk—Credit risk management*."

Oil development and exploration activities are dependent upon the availability of drilling rigs and related third party equipment. High demand for equipment such as drilling rigs or access restrictions, which may be exacerbated by rising oil prices, may affect the availability and cost of, and our access to, such equipment and may delay our development and exploration activities. Additionally, the wage rates of qualified drilling rig crews generally rise in response to the increased number of active rigs in service and could increase sharply in the event of a shortage. Failure by us or our contractors to secure necessary equipment and services or a material increase in the costs of such equipment and services could materially and adversely affect our business, prospects, financial condition and results of operations.

Any future offtakers will rely upon the availability of storage tanks and transportation systems, such as pipeline systems and oil tankers, including such infrastructure systems that are owned and operated by third parties. We may be unable to access such infrastructure and systems that we use currently or alternative infrastructure or systems, or may otherwise be subject to interruptions or delays in the availability of infrastructure which could result in disruptions to our projects thereby impacting our ability to deliver oil to commercial markets. See "*—Significant expenditure is required to maintain operability and operations integrity, we rely upon infrastructure which is old and/or operated and owned by third parties, and improper maintenance and repair could harm our operations*."

If we fail to integrate acquisitions successfully, our financial condition and future performance could be adversely affected

Historically, we have acquired interests in new assets on a regular basis. We will continue to consider acquisition opportunities that fit within our overall strategy. Integrating operations, technology, systems, management, personnel and pre or post-completion costs for future acquisitions may prove more difficult or expensive than anticipated, thereby rendering the value of any company or assets acquired less than the amount paid. The integration of acquired businesses requires significant time and effort on the part of our management. Integration of new businesses can be difficult and disrupt our own business because our operational and business culture may differ from the cultures of the businesses we acquire, unpopular cost-cutting measures may be required, internal controls may be more difficult to maintain and control over cash flows and expenditures may be difficult to establish. We could experience difficulties in successfully integrating future acquisitions, which could materially and adversely affect our business, prospects, financial condition and results of operations.

We may face unanticipated increased or incremental costs in connection with decommissioning obligations

We are obliged under U.K. law to dismantle and remove equipment, to cap or seal wells and generally to remediate production sites. Although we typically aim to and have contracted for limited decommissioning liabilities, typically assuming responsibility for a fraction of the costs relative to our working interest, we may retain additional potential liability to third parties under applicable regulations. Once we are required to submit a decommissioning plan, we will be jointly and severally liable for implementing that plan with former or current commercial partners. If our commercial partners default on their obligations, we will remain liable and our decommissioning liabilities could be magnified significantly through such default. Where the U.K. Secretary of State deems that a party with liability for a decommissioning program is unlikely to be able to fulfill that liability, it is empowered to require the provision of appropriate financial security to cover those decommissioning costs.

We are currently conducting decommissioning operations at Thistle/Deveron, Heather/Broom, Alma/Galia and The Dons. Any unanticipated increased or incremental costs in connection with such decommissioning obligations are likely to materially and adversely affect our business, prospects, financial condition and results of operations.

In Malaysia, PETRONAS regulates decommissioning of oil and gas structures through PSCs and PETRONAS's Guidelines for Decommissioning of Upstream Installations as part of its Procedure and Guidelines for Upstream Activities. Our obligation under the PM8/Seligi PSC includes the decommissioning of all assets approved by PETRONAS under the PM8/Seligi PSC as well as an annual contribution of a decommissioning fund for the PM8/Seligi PSC assets. This obligation to decommission the assets ceases at the expiry of the PM8/Seligi PSC or when the assets are being used by other PSC operators for their petroleum operations or by PETRONAS. No asset under the PM8/Seligi PSC is currently approved for decommissioning. The estimate of costs for the decommissioning of PM8/Seligi is reviewed annually, with the next review scheduled for June 30, 2023. Any decommissioning activity must be approved by PETRONAS before commencement and must be performed pursuant to a work program and budget, which must include detailed decommissioning plans and itemized cost estimates, approved by PETRONAS. If we are required to undertake decommissioning works during the term of the PM8/Seligi PSC, we may request from PETRONAS an amount equal to the lower of the cumulative decommissioning fund paid by us and the actual cost of the decommissioning operations. Under the PM8/Seligi PSC, we are liable for any damages, costs, claims or expenses arising out of any decommissioning operations caused by our willful misconduct or negligence.

Under the law of the jurisdictions in which we operate, the United Kingdom included, we may be liable for up to 100% of decommissioning liabilities with respect to enhancements that we make to assets after we acquire them. In connection with the sale or transfer of our assets, we may retain or be liable for decommissioning liabilities, even if we have not contractually agreed to accept these liabilities.

Our financial statements for the year ended December 31, 2021 include a provision for decommissioning liabilities, based on internal and third-party estimates taking into account current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. These estimates include the application of an annual inflation rate of 2.0% and an annual discount rate of 2.0% to our U.K. assets. As of June 30, 2022, we recorded a decommissioning provision of $764.7 million in respect of our decommissioning obligations under our licenses of which we expect $335.7 million to be utilized between one and five years. Separately, as of June 30, 2022, we recorded a decommissioning liability of $33.8 million in respect of our agreement with BP for the decommissioning at Thistle/Deveron. The ultimate costs of decommissioning wells and sites are difficult to accurately predict and may depend on a number of factors such as competition for decommissioning equipment and services increasing as a result of activity in the oil and gas industry accelerating. The costs of decommissioning may also exceed the value of the long-term provision set aside to cover such decommissioning costs. Our decommissioning provisions may not be sufficient and we may be required to provide new or increased financial security to the U.K. government or to our counterparties. Any increase in estimated decommissioning liability or in the amount of financial security we are required to provide could materially and adversely affect our business, prospects, financial condition and results of operations.

Furthermore, surety bonds used for insuring decommissioning liabilities are becoming increasingly difficult to put in place and we may be required to increase our reliance on letters of credit or escrow accounts. Letters of credit and escrow accounts, which, unlike surety bonds, require cash collateralization (which restricts the amount of cash we have available to service our other obligations, including our debt facilities) and affect our debt capacity. As such, amounts held as letters of credit or in escrow may limit the amount of debt we could potentially take on and should be included in an existing or potential lender's assessment of our ability to service debt. This could have a material adverse effect on our business, prospects, financial condition and results of operations.

To the extent our costs in connection with decommissioning are higher than anticipated, this could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our commodity hedging activities may not be effective

The nature of our operations results in exposure to fluctuations in commodity prices. Our policy is to have the flexibility to hedge oil prices up to a maximum of 75% of the next 12 months' productions on a rolling annual basis, up to 60% in the following 12 month period and 50% in the subsequent 12 month period. We use financial instruments and physical delivery contracts to hedge our exposure to these risks and may continue to do so in the future.

As of June 30, 2022, we have hedged a total of approximately 3.4 MMbbls and approximately 3.5 MMbbls for the six months ended December 31, 2022 and June 30, 2023, respectively, with an average floor price of approximately $60/bbl and approximately $57/bbl, respectively, and an average ceiling price of approximately $79/bbl and $77/bbl, respectively.

However, hedging could fail to protect us or could adversely affect us due to, among other reasons:

- the available hedging instruments failing to correspond directly with the risk for which protection is sought;
- the duration or nominal amount of the hedge failing to match the duration or amount of the related liability;
- our hedge counterparty defaulting on its obligation to pay us;
- the credit quality of our hedge counterparty being downgraded to such an extent that it impairs the ability of one of our relevant members to sell or assign our side of the hedging transaction; and
- the value of the derivatives used for hedging being adjusted from time to time in accordance with applicable accounting rules to reflect changes in fair value, and any downward adjustments reducing our net assets and profits.

In addition, hedging involves transaction costs. These costs may increase as the period covered by the hedging increases and during periods of volatility. In periods of extreme volatility, it may not be commercially viable to enter into hedging transactions due to the high costs involved, which may in turn increase our exposure to financial risks. There can be no assurance that we will be able to enter into hedging contracts on suitable terms in the future.

If we experience losses as a result of our hedging activities, or if we are unable to hedge our commodity price effectively in the future, this could have a material adverse effect on our business, prospects, financial condition and results of operations.

We depend on our board of directors, key members of management, independent experts, technical and operational service providers and on our ability to retain and hire such persons to effectively manage our growing business

Our future operating results depend in significant part upon the continued contribution of our board of directors, key senior management and technical, financial and operations personnel. As a low-cost, lean organization, we rely on certain key, high quality employees to achieve our targets and manage our risks. The loss of the services of any of these key personnel or a reduction in the availability of personnel due to climate change perceptions could have a material adverse effect on our business and prospects. Management of our business requires, among other things, stringent control of financial systems and operations, the continued development of our management control, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel and the presence of adequate supervision.

In addition, the expertise and relationships of our board of directors and key management are important to the conduct of our business. If we were to unexpectedly lose a member of our key management or fail to maintain one of the strategic relationships of our key management team, our business and results of operations could be materially and adversely affected.

We use independent contractors to provide us with certain technical assistance and services. In certain cases, we may exercise limited control over the activities and business practices of these providers and any inability on our part to maintain satisfactory commercial relationships with them or their failure to provide quality services could materially and adversely affect our business, prospects, results of operations and financial condition.

Attracting and retaining appropriate skilled personnel will be fundamental to the execution of our strategy and the continued growth of our business. We require skilled personnel in the areas of exploration and development, operations, engineering, business development, oil marketing, finance and accounting relating to our projects. The competition for qualified personnel in the oil and gas industry was, and may be in the future, intense. We may not successfully attract new personnel and retain existing personnel required to continue to expand our business and to successfully execute and implement our business strategy; and any inability to do so could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our business reputation is important to our continued viability and any damage to such reputation could materially and adversely affect our business

Our reputation is important to our business for reasons including, but not limited to, finding commercial partners for business ventures, securing licenses with governments, attracting contractors and employees and negotiating favorable terms with suppliers. In addition, as a publicly listed company, we may be subject to shareholder activism, which may have adverse consequences for our reputation and business.

We require adherence to our Code of Conduct, which sets out the behavior which we expect of our directors, managers and employees, and of our suppliers, contractors, agents and partners. However, we have significant reputational and commercial exposures, including to a major offshore incident or non-compliance with applicable laws and regulations. Any damage to our reputation, whether arising from litigation, regulatory, supervisory or enforcement actions, matters affecting our financial reporting, alleged non-compliance with administrative agencies in the jurisdictions in which we do business or environmental or safety incidents, negative publicity, including from environmental activists, or the conduct of our business or otherwise, could materially and adversely affect our business, prospects, financial condition or results of operations.

We do not insure against certain risks and our insurance coverage may not be adequate for covering losses arising from potential operational hazards and unforeseen interruptions

Oil and gas development and production operations are inherently risky and hazardous and involve environmental, technical and logistical difficulties. Losses resulting from the occurrence of any such risks could result in delays, or interruption (permanent or temporary) to production, cost overruns, substantial losses and/or exposure to substantial environmental and other liabilities. We believe that the extent of our insurance cover is reasonable based on the costs of cover, the risks associated with our business, availability of insurance and industry practice. However, insurance is subject to limitations on liability and, as a result, may not be sufficient to cover all of our losses. In addition, the risks and hazards associated with our operations may not in all circumstances be insurable or, in certain circumstances, we may elect not to obtain insurance to deal with certain events due to the high premiums associated with such insurance or for other reasons. Consistent with insurance coverage generally available to the industry, our insurance currently includes cover for damage to physical assets, operator's extra expense (well control, seepage and pollution clean-up and re-drill costs) and third-party liabilities for our global exploration and production activities, in each case subject to excesses, exclusions and limitations. We do not carry loss of production insurance other than for Kraken. There can be no assurance that our insurance will be adequate to cover any losses or exposure for liability, or that we will continue to be able to obtain insurance to cover such risks.

We are unable to give any guarantee that expenses relating to losses or liabilities will be fully covered by the proceeds of applicable insurance. Consequently, we may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage. We are also subject to the future risk of unavailability of insurance, increased premiums or excesses, and expanded exclusions.

Our operations are subject to the risk of litigation

From time to time, we may be subject to litigation or arbitration arising out of our operations. Damages claimed under such proceedings may be material or may be indeterminate, and the outcome of such litigation or arbitration could materially and adversely affect our business, results of operations and financial condition. While we assess the merits of each lawsuit and defend accordingly, we may be required to incur significant expenses in defending against such litigation or arbitration and there can be no guarantee that a court or tribunal finds in our favor.

We are also currently engaged in a dispute with PBJV Group Sdn. Bhd. ("**PBJV**"), a contractor in Malaysia in respect of which there has been an adjudication award against us in an amount of approximately RM70 million (being approximately $17 million of which our partner would be obliged to bear 50% of any such liability). We do not accept that this payment is due and the matter has moved to arbitration, with the meeting for a determination currently scheduled in November 2022. For further details, see "*Our business—Legal and arbitration proceedings*."

While we assess the merits of each lawsuit and defend accordingly, we may be required to incur significant expenses in defending against such litigation or arbitration and if a court or tribunal fails to find in our favor, it could have a material adverse effect on our business, prospects, financial condition and results of operations.

We are subject to both transactional and translational foreign exchange and inflation risks, which might adversely affect our financial condition and results of operations

Substantially all of our revenues are in, and most of our working capital is in, US dollars. However, our operations are entirely outside the United States and substantially all of our operating costs, including labor and employee costs, are typically incurred in local currencies other than US dollars, in particular, pounds sterling and Malaysian Ringgits.

Our transactional foreign currency risk arises primarily from sales or purchases in currencies other than our functional currency, the US dollar. We convert funds to foreign currencies to meet our payment obligations in jurisdictions where the US dollar is not an accepted currency as required. Additionally, a portion of our borrowings are denominated in currencies other than the US dollar. The 7% Retail Notes, the 9% Retail Notes and the SVT Working Capital Facility are denominated in pounds sterling. Our translational foreign currency exposure arises from the translation of assets and liabilities denominated in currencies other than US dollars into US dollars in our financial statements and results.

Exchange rates between pounds sterling and the US dollar have fluctuated significantly in the past and may do so in the future, particularly after the United Kingdom’s withdrawal from the European Union. As of June 30, 2022, the OandA pounds sterling/US dollar exchange rate was $1.22326 per £1.00. Consequently, construction, exploration, development, administration and other costs may be lower in terms of US dollars or other relevant currencies. However, if pounds sterling were to strengthen against US dollar, these costs would increase.

We engage in certain currency hedging activities to hedge the risk of substantial 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 denominated operating and capital expenditures to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. We have entered into a number of foreign exchange currency forward contracts and structured products to hedge our foreign currency risk.

As of December 31, 2021, 18% of our sales (2020: 8%) and 89% of our costs (2020: 86%) (including operating and capital expenditure and general and administration costs) were denominated in currencies other than the US dollar. We continually review our currency exposures and when appropriate look at opportunities to enter into foreign exchange hedging contracts. However, our hedging activities do not cover the entirety of the currency exchange risks that we face, and there can be no guarantee that these hedging activities will be effective.

Inflation expectations have recently risen globally and input costs are expected to rise accordingly and it may be that our operational and capital expenditures increase without a commensurate increase in our revenues. Similar to other exploration and production operations, we are reliant upon goods, services and equipment provided by contractors and other companies to carry out our operations. While we believe we are proactive in engaging our global supply chain to mitigate the impact of cost inflation, if we are unable to obtain the services, goods or equipment necessary to carry out our operations, including our current and future development projects, or if any of our contractors or suppliers are unable or unwilling to carry out our services or deliver goods or equipment to us as planned, our operations or projects may suffer from delays and/or cost increases.

The occurrence of any of the foregoing could materially and adversely affect our business, prospects, financial condition and results of operations.

We may be unable to dispose of assets on attractive terms and may be required to retain liabilities for certain matters

We regularly review our asset base to assess the market value versus holding value of existing assets, with a view to optimally manage our capital structure. The decision to dispose of an asset may be influenced by a variety of factors, including our overall development and production strategy, prioritization of projects and the commercial viability of development or production (which is affected by factors such as the oil price and expected costs). However, there can be no guarantee that we will be able to dispose of assets at the times we want to do so, or that we will be able to dispose of assets on attractive terms. Our ability to dispose of non-strategic assets could be affected by various factors, including the availability of purchasers willing to purchase such assets at prices acceptable to us. Sellers typically retain certain liabilities or agree to indemnify buyers for certain matters and to divest certain assets we may provide an indemnity to a buyer. The magnitude of any such retained liability or indemnification obligation may be difficult to quantify at the time of the transaction and ultimately may be material. Also, as is typical in divestiture transactions, third parties may be unwilling to release us from guarantees or other credit support provided prior to the sale of the divested assets. As a result, after a sale, we may remain secondarily liable for the obligations guaranteed or supported to the extent that the buyer of the assets fails to perform these obligations. See "*—We may face unanticipated increased or incremental costs in connection with decommissioning obligations*."

We could incur material costs to comply with, or as a result of liabilities under, health and safety and environmental regulations

We operate in an industry that is inherently hazardous and consequently subject to comprehensive health and safety and environmental regulation, including those governing discharges of oil and other pollutants to air and water, the management of produced water and wastes and the cleaning of contamination. Failure to adequately assess, mitigate and manage health and safety and environmental risks may result in loss of life, injury, or adverse impacts on the health of employees, contractors and third parties or the environment. Such failure, whether inadvertent or otherwise, by us to comply with applicable legal or regulatory requirements may give rise to significant liabilities, reputational damage and/or the loss of or delays in obtaining necessary licenses or other permits. On March 1, 2018, a hydrocarbon release occurred on our Heather platform without the flare being lit, which led to a release of uncombusted flammable hydrocarbon gas and an accumulation of gas on the platform. On March 18, 2018, the Health and Safety Executive ("**HSE**") issued an enforcement notice regarding this incident, with which we complied and had removed. The HSE have yet to provide a timeline for their decision as to whether to make a recommendation to the Crown Office and Procurator Fiscal Service for consideration for prosecution. The Heather platform has ceased production and we have responded to all of HSE's requests for information to date. On December 22, 2021, the U.K. Regulator informed us in writing that they intend to investigate the restart of production and resumption of flaring at Magnus without the U.K. Regulator's consent in writing. An internal legally privileged investigation was undertaken focused on (i) how we operationally found ourselves exceeding the Magnus flare consent (including the root causes of failures in the relevant procedures and tools) and (ii) the internal management decision making process and the U.K. Regulator's engagement. Both investigations have now concluded, with the U.K. regulator informing us in August that it considers it appropriate to sanction the Group in the form of a financial penalty totaling £150,000. This level of sanction was deemed appropriate given our positive and open engagement with the regulator throughout the incident and subsequent investigation and the steps taken internally following the Company's own investigation to prevent any reoccurrence. As of the date of this Offering Memorandum, there is one open instance of non-compliance with health and safety regulation. This one open improvement notice is on the Magnus asset and relates to the draining of liquid hydrocarbons to open hazardous drains. Although control arrangements were in place, the regulator wanted to see a reduction in the frequency of drainage being undertaken and an engineering solution to remove the manual draining. This issue will be rectified by October 2022, in accordance with the accepted plan. The previous improvement notice in respect of pipework at the Sullom Voe Terminal, which was identified as susceptible to microbial corrosion, has been rectified in accordance with the accepted plan. The improvement notice issued on Magnus regarding assurance arrangements has been rectified in accordance with the accepted plan. However, there can be no assurances that we will not incur material costs in the future, including clean-up costs, civil and criminal fines, penalties and sanctions and third-party claims, including for personal injury, wrongful death and environmental and property damages, and other environmental, health and safety claims under contract, as a result of violations of our obligations under environmental, health and safety requirements.

Further, health and safety and environmental laws and regulations may expose us to liability for the conduct of others and legal and regulatory changes that are applied retroactively may expose us to liability for acts that complied with all applicable health and safety and environmental laws and regulations when they were performed.

The terms and conditions of licenses, permits, permissions or other authorizations necessary for our operations may include more stringent environmental and/or health and safety requirements over time. Since our operations have the potential to impact air and water quality, biodiversity and ecosystems, obtaining exploration, development or production licenses and permits may become more difficult or may be delayed due to governmental, regional or local environmental consultation, scientific studies, approvals or other considerations or requirements.

We incur, and expect to continue to incur, substantial capital and operating costs in an effort to comply with increasingly complex health and safety and environmental laws and regulations and to develop and implement robust health, safety, environment and assurance ("**HSE&A**") systems to enable us to ensure compliance with all applicable requirements as the duty holder at many of our operated interests. We have taken over the duty holdership of many of our operated interests. This has increased our liability to the U.K. government with respect to our interests in the UKCS, and the failure to comply with current health, safety and environment laws and regulations may result in regulatory action, the imposition of fines, penalties or sanctions or the payment of compensation to third parties which each could in turn have a material adverse effect on our business, prospects, financial condition and results of operations. Although we believe that the assumption of duty holdership mitigates some of the risk associated with the lack of direct control over these conditions when the responsibility for them lies with other entities, it may expose us to more direct liability for HSE&A conditions. Our asset integrity reviews continue to contribute in a positive manner by providing a deeper understanding of areas of improvement and good practice. The key focus through 2022 has been ensuring that the actions from the previous findings are implemented in a sustained manner and the learnings from the increased levels of collaboration and engagement are incorporated into future business planning cycles, ensuring threats and opportunities are optimized.

With regard to our operations in Malaysia, the PM8/Seligi PSC and the Block PM409 PSC requires us as contractor to conduct an initial assessment of the environment, health and safety risks involved in the execution of petroleum operations in the relevant contract area. Under the PM8/Seligi PSC and the Block PM409 PSC, we are also required to take appropriate measures to prevent any environment, health and safety incidents from occurring offshore and to minimize the consequences of such incidents in the event they do occur. We have to ensure that all our personnel are competent, fully trained, experienced, skilled and certified to carry out the tasks of operating all machinery, equipment and tools offshore, and that our personnel comply with Department of Occupational Safety and Health ("**DOSH**") and PETRONAS' environment, health and safety requirements and all safety manual policies and procedures. These requirements are subject to an annual audit by PETRONAS and/or Offshore Self-Regulation audit by us, and to the extent any gaps are identified, we will be required to ensure that all such gaps are addressed to DOSH and/or PETRONAS' satisfaction.

New laws and regulations, the imposition of tougher requirements in licenses, increasingly strict enforcement of, or new interpretations of, existing laws, regulations and licenses, or the discovery of previously unknown contamination may require further expenditures to, for example:

- modify operations;
- install pollution control equipment;
- perform site clean ups;
- curtail or cease certain operations; or
- pay fees or fines or make other payments for pollution, discharges or other breaches of environmental requirements.

Although the costs of the measures taken to comply with environmental and health and safety regulations have not had a material adverse effect on our business, prospects, financial condition or results of operations to date, the costs of such measures and liabilities (including for any environmental damage caused by our operations in the future) may increase, which could materially and adversely affect our business, prospects, financial condition and results of operations. In addition, it is not possible to predict with certainty what future environmental and health and safety regulations will be enacted or how current or future environmental and health and safety regulations will be applied or enforced in the future. Environmental and health and safety laws may result in a curtailment of production and/or a material increase in the cost of production, development or exploration activities.

We are also affected by international treaties on the environment to which the United Kingdom is a party such as the OSPAR Convention. Controls on the quantities of oil that can be discharged in process waters in the course of offshore operations have been implemented in the United Kingdom by the Offshore Petroleum Activities (Oil Pollution Prevention and Control) Regulations 2005 (the "**OPPC**"). The OPPC was amended by the Offshore Petroleum Activities (Oil Pollution Prevention and Control) (Amendment) Regulations 2011 which, among other things, extends the scope of the OPPC to apply to all emissions of oil from pipelines used for offshore oil and gas activities and for gas storage and unloading activities.

The Offshore Combustion Installations (Pollution Prevention and Control) Regulations 2013 (the "**PPC**") have been implemented in the United Kingdom and apply to all of our assets. Permits under the PPC have been issued to us by the BEIS (formerly the Department of Energy and Climate Change). Applications for these PPC permits normally contain an energy efficiency survey. Energy efficiency surveys that we have conducted as part of the PPC application process have identified potential energy efficiency measures and other upgrades to the installations that may be implemented by us, which have been built into the assets' life-of-field opportunity registers maintained by us, for future investment opportunities for improved performance. We have evaluated emission reduction opportunities and a number of these opportunities are expected to be implemented through 2023. The costs associated with the PPC permit compliance and other measures to be undertaken may be material for us.

To the extent we incur material costs to comply with the HSE&A regulations, or as a result of liabilities under the HSE&A regulations, this could have a material adverse effect on our business, prospects, financial condition and results of operations.

We are exposed to the risk of violations of anti-corruption laws, related sanctions or other similar regulations

We operate in Malaysia, which like many countries in emerging markets, at times experiences high levels of fraud, bribery and corruption. Particularly, oil and gas companies operating in locations such as Malaysia may be targets of criminal, corruption or terrorist actions. Criminal, corruption or terrorist action against us and our assets or facilities could materially and adversely affect our business, prospects, financial condition and results of operations.

As a result, we are exposed to a risk of violating anti-corruption laws and sanctions regulations applicable in those countries where we or our joint venture partners or agents do business. Violations of anti-corruption laws and sanctions regulations may be punishable by civil penalties, including fines, denial of export privileges, injunctions, asset and bank account seizures, debarment from government contracts (and termination of existing contracts) and revocations or restrictions of licenses, disgorgements of profits or other gains as well as criminal fines and imprisonment. In addition, any major violations could have a significant impact on our reputation and consequently on our ability to win future business and could also adversely affect our access to financing. In particular, our international operations may be subject to anti-corruption laws and regulations such as the US Foreign Corrupt Practices Act of 1977, the United Kingdom Bribery Act of 2010 ("**United Kingdom Bribery Act**") and the local anti-corruption laws of any jurisdiction applicable to us. Furthermore, our international operations may be affected by sanctions and economic restrictions imposed by the United Kingdom Office of Financial Sanctions Implementation ("**OFSI**"), the United States Office of Foreign Assets Control ("**OFAC**"), the European Union, the United Nations, the World Bank, or other law enforcement agencies or sanctions authorities. Such sanctions or economic restrictions can affect our joint venture partners, host country governments or the oil sector of a host country government, suppliers and other stakeholders. While we review laws and regulations to determine if they are applicable to us, our employees, consultants, agents and third parties engaged by or performing services for us, there can be no guarantee that a court or other enforcement authority will reach the same determination as we do. If we are found to be subject to any laws or regulations which we considered were not applicable, our policies, procedures and actions may be in breach of such law or regulation and we may be subject to censure, prosecution, fine or other negative consequences. While we have what we believe to be appropriate internal policies and procedures, including a Code of Ethical Conduct, as well as contractual arrangements in place with our agents and joint venture partners which seek to prevent our agents or joint venture partners (as the case may be) from engaging in illegal or unethical activities, there can be no guarantee our agents or joint venture partners (as the case may be) adhere to such contractual arrangements or policies and procedures and, if they do not, that we will be made aware of any breaches or potential breaches in a timely manner or at all. However, we may, nonetheless, remain liable for the unauthorized actions of our agents or joint venture partners (as the case may be).

In addition, even where we have compliant anti-corruption and other business ethics policies and procedures and we monitor compliance with such policies and procedures, there can be no assurance that such policies and procedures have been or will be followed at all times or have or will effectively detect and prevent all violations of the applicable laws and every instance of fraud, bribery and corruption in every jurisdiction in which one or more of our employees, consultants, agents, joint venture partners, contractors or sub-contractors is located. As a result, we could be subject to penalties and reputational damage, which could have a material adverse effect on our business, prospects, financial condition and results of operations if we, our employees, agents or other parties we do business with or who have performed services for us have failed or fail to prevent any such violations or are or become the subject of investigations into potential violations.

If adverse investigations or findings are made, either erroneously due to differing but legal business norms or substantiated in the future, against us, our directors, officers, employees or joint venture partners, or such persons or their respective partners are found to be involved in corruption or other illegal activity, this could result in criminal or civil penalties, including substantial monetary fines, against our directors, officers, employees or joint venture partners. Any such investigations or findings, either erroneous or substantiated in the future, could damage our reputation with our investors, potential investors, joint venture partners or potential joint venture partners and our ability to do business, including by affecting our rights under our various production sharing contracts and joint operating agreements or by the loss of key personnel, and could materially and adversely affect our business, prospects, financial condition and results of operations. We may also be subject to allegations of corrupt practices or other illegal activities, which, even if subsequently proved to be unfounded, may damage our reputation and require significant expense and management time to investigate. Furthermore, alleged or actual involvement in corrupt practices or other illegal activities by our joint venture partners, or others with whom we conduct business could also damage our reputation and business and materially and adversely affect our business, prospects, financial condition and results of operations.

Our internal systems may be subject to intentional and unintentional disruption, and our confidential information may be misappropriated, stolen or misused, which could adversely impact our reputation and future sales

We are exposed to risks arising from interruption to or failure of IT infrastructure. The risks of disruption to normal operations range from loss in functionality of generic systems (such as email and internet access) to the compromising of more sophisticated systems that support our operational activities. These risks could result from malicious interventions such as cyber-attacks designed to penetrate our network security or the security of our internal systems, misappropriate proprietary information and/or cause interruptions to our services. Such attacks could include hackers obtaining access to our systems, the introduction of malicious computer code or denial of service attacks. If an actual or perceived breach of our network security occurs, it could adversely affect our business or reputation, and may expose us to the loss of information, litigation and possible liability. Such a security breach could also divert the efforts of our technical and management personnel. In addition, such a security breach could impair our ability to operate our business. If this happens, our reputation could be harmed, our revenues could decline and our business could suffer.

In addition, confidential information that we maintain may be subject to misappropriation, theft and deliberate or unintentional misuse by current or former employees, third-party contractors or other parties who have had access to such information. Any such misappropriation and/or misuse of our information could result in us, among other things, being in breach of certain data protection and related legislation. We expect that we will need to continue closely monitoring the accessibility and use of confidential information in our business, educate our employees and third-party contractors about the risks and consequences of any misuse of confidential information and, to the extent necessary, pursue legal or other remedies to enforce our policies and deter future misuse.

We collect, store and use personal data in the ordinary course of our business operations, and are therefore subject to data protection legislation (including the General Data Protection Regulation (EU 2016/679)). Non-compliance or technical defects resulting in a leak or the misuse of such data could result in fines, damage to our reputation and/or otherwise harm our business.

We do not register trademarks, service marks and trade names that we use in conjunction with the operation of our business

The image and reputation of our company constitutes a significant part of our business. We do not currently register trademarks, service marks and trade names that we use in our business, including the "**EnQuest**" name and logo. In addition, we cannot assure you that third parties will not infringe on or misappropriate our rights or assert rights in, or ownership of, our trademarks and other intellectual property rights or in trademarks that are similar to trademarks that we use. Litigation may be necessary to enforce our intellectual property rights or to defend ourselves against claimed infringement of the rights of third parties. If we are unable to protect our intellectual property rights against infringement or misappropriation, or if others assert rights in or seek to invalidate our intellectual property rights, this could materially harm our future financial results and our ability to develop our business.

The COVID-19 pandemic may adversely affect our business and exacerbate other risks discussed within this section

In December 2019, a novel strain of coronavirus ("**COVID-19**") surfaced in Wuhan, China. The spread of this virus globally has caused significant business disruption, significant volatility in international debt and equity markets and significant disruption to the economy and a marked reduction in demand for oil. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the global economy. For example, in 2021, Magnus suffered a seven-day shutdown due to key control room personnel being unavailable due to COVID.

We continue to monitor the evolving COVID-19 pandemic and although our operations have not incurred any significant disruption related to COVID-19 yet, the situation, whilst improving, could change quickly, in particular with the occurrence of new strains. In connection with COVID-19 or any governmental responses to COVID-19, we may experience, among other risks:

- materially lower oil prices for an extended period of time due to reduced demand for oil;
- operational shutdowns due to the unavailability of qualified personnel, third party utilities or spare parts required to safely maintain operations due to outbreaks of COVID-19;

- delayed execution of projects or increased project costs due to governmental restrictions and measures put in place to safeguard employees and contractors, such as reducing personnel and deferring discretionary activities at our assets, which may cause delays in expected future cash flows; and

- difficultly in attracting and retaining key personnel.

To the extent the COVID-19 pandemic adversely affects our business, prospects, financial condition and results of operations, it may also have the effect of heightening other risks described in this "*Risk factors*" section.

We may be subject to work stoppages or other labor disturbances, and our employees may become unionized

Work stoppages or other labor disturbances, such as industrial action, with our employees or those of our contractors, suppliers and customers, may occur in the future. Such disturbances could have a material adverse effect on our production and development activities in the periods during which they occur. In addition, our employees, and those employed by our contractors, may become members of or represented by labor unions. If this occurs, we or our contractors may not be able to negotiate acceptable collective bargaining agreements or future restructuring agreements or may become subject to material cost increases or additional work rules imposed by such agreements.

We have been the operator of the Sullom Voe Terminal since December 1, 2017 and the technicians employed at the Sullom Voe Terminal, comprising approximately 60% of the Sullom Voe Terminal employees, are covered by a collective agreement with the union UNITE. In March 2020, UNITE announced that 94% of members voted for strike action at the Sullom Voe Terminal in response to certain proposals, including changes to the pension scheme. The strike action was called off on March 20, 2020 but there can be no assurances that there will not be future work stoppages or labor disturbances.

Such disturbances could have a material adverse impact on our production and development activities in the periods during which they occur. In addition, our employees, and those employed by our contractors, may become members of or represented by labor unions. If this occurs, we or our contractors may not be able to negotiate acceptable collective bargaining agreements or future restructuring agreements or may become subject to material cost increases or additional work rules imposed by such agreements.

The occurrence of any of the foregoing could materially and adversely affect our business, prospects, financial condition and results of operations.

Our tax liability is subject to estimation and we may be adversely affected by changes to tax legislation or its interpretation or increases in effective tax rates in the jurisdictions in which we do business

We are subject to corporate tax and production tax in the United Kingdom and petroleum income tax in Malaysia. Fluctuations in these tax rates can have an impact on projects and make certain projects less economically viable. Our tax rate, including our effective tax rate and VAT, may be affected by changes in tax laws or interpretations of tax laws in any jurisdiction in which we operate and in any financial year will reflect a variety of factors that may not be present in succeeding financial years. During periods of high profitability in the oil industry, there are often calls for increased or windfall taxes on oil revenue. For example, on May 26, 2022, the UK Government introduced the new Energy Profits Levy ("**EPL**") on the profits earned from the production of oil and gas in the UK with effect from that date. The EPL is charged at the rate of 25% on taxable profits in addition to ring fence corporation tax of 30% and the ring fence supplementary charge ("**SCT**") of 10%. The Energy (Oil and Gas) Profits Levy Act 2022, the EPL enabling legislation, received Royal Assent and was enacted in July 2022. The EPL is a temporary measure and, as enacted, will cease to apply on December 31, 2025. An 80% investment allowance has also been made available under the EPL. This allowance provides an additional incentive to invest in oil-related activities, which may impact our investment decisions which are under consideration and, in turn, may impact our cash flows and the amounts due under the EPL as we may look to utilize the benefit of the investment allowance. Taxes may increase or be imposed again in the future. As a result, our tax rate may increase or tax allowances may be withdrawn or curtailed in future periods, which could have a material adverse effect on our financial results and, specifically, our net income, cash flow and earnings may decrease.

Tax regimes in certain jurisdictions can be subject to differing interpretations and tax rules in any jurisdiction are subject to legislative change and changes in administrative and regulatory interpretation. The interpretation by our relevant subsidiaries of applicable tax law as applied to their transactions and activities may not coincide with that of the relevant tax authorities. As a result, transactions may be challenged by tax authorities and any of our profits from activities in those jurisdictions in which we operate may be subject to additional tax or additional unexpected transactional taxes (e.g., stamp duty, VAT or capital gains tax), which, in each case, could result in significant legal proceedings and additional taxes, penalties and interest, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations. In addition, taxing authorities could review and question our tax returns leading to additional taxes and penalties which could be material.

Additionally, our tax provision is subject to estimation. In the U.K., we prepare our tax provision before we file our U.K. corporation tax and supplementary charge returns with HMRC and thus we must make estimates and judgments on factors in the tax provision process. Such estimates and judgments include those required in calculating the effective tax rate. In considering the tax on exceptional items, we apply the appropriate statutory tax rate to each exceptional item to calculate the relevant tax charge. We also make judgments and assumptions regarding the likelihood of future taxable profits and the amount of deferred tax that can be recognized on unused tax losses where it is probable that future taxable profits will be available for utilization. Although we do not expect to pay material U.K. cash corporation tax on operational activities within the ring fence for the foreseeable future, there can be no assurances that we will not be required to pay taxes under current or future laws.

We and/or our field partners may not have good title to all our and/or their assets and licenses

There can be no assurance that we and/or our field partners have good title to all our and/or their assets and the rights to explore for, develop and produce oil from such assets. Moreover, our predecessors from which we acquired our interests in our assets may not have had good title to those interests.

There may be disputes concerning the validity of our production and exploration licenses in the UKCS, Malaysia and in other countries in the future. Changing regulatory and environmental conditions may create disputes with the BEIS in the United Kingdom or other oil companies with operations in the UKCS. If such disputes concerning the validity of licenses or title to assets are determined adversely against us and/or our field partners, such assets or licenses could be taken away or revoked and/or we could be subject to fines or sanctions without any form of compensation. See "*Regulation—United Kingdom*." Similarly, the same may occur with other regulatory bodies and oil companies in other countries where we currently have assets (currently Malaysia). See "*Regulation*."

The occurrence of any of the foregoing could materially and adversely affect our business, prospects, financial condition and results of operations.

Our international operations will require us to comply with various regulatory regimes and subject us to the challenges of running a business with global operations

We currently operate our business in the United Kingdom and Malaysia. Accordingly, we are subject to political, economic and social factors affecting Malaysia, regional diplomatic developments affecting Malaysia and changes in Malaysian laws, regulations and policies implemented by the local government from time to time. In addition, our Malaysian operations are potentially subject to some or all of the following risks of doing business internationally, among others:

- foreign laws and governmental regulation, including those governing tax, worker immigration and customs;
- expropriation, confiscatory taxation and nationalization of our assets located in areas in which we operate;
- unfavorable changes in foreign monetary and tax policies, and unfavorable and inconsistent interpretation and application of foreign tax laws; and
- foreign currency fluctuations and restrictions on currency repatriation.

Our Malaysian operations are subject to the laws and regulations of Malaysia. If the existing body of laws and regulations in Malaysia are interpreted or applied, or relevant discretions exercised, in an inconsistent manner by the courts or applicable regulatory bodies, this could result in ambiguities, inconsistencies and anomalies in the enforcement of such laws and regulations, which in turn could hinder our long-term planning efforts and may create uncertainties in our operating environment. Additionally, our ability to compete in Malaysian markets may be adversely affected by governmental regulations or other policies that favor the awarding of contracts to contractors in which nationals of those countries have substantial ownership interests. Our Malaysian operations may face governmentally imposed restrictions or taxes from time to time on the transfer of funds to us.

Various national and local taxing authorities may also periodically examine our operations. Such examinations, including audits, may result in an assessment of additional taxes and other costs payable in relation to prior periods.

Any acts of terrorist activity, piracy, social and civil unrest, political upheaval and armed conflicts causing disruptions of oil and gas exports could materially and adversely affect our business, prospects, financial condition and results of operations.

Certain emerging and developing market economies have been, and may continue to be, adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside countries with emerging or developing economies or an increase in the perceived risks associated with investing in such economies could discourage foreign investment in and adversely affect the economies of these countries (including countries in which we have assets).

Risks relating to the Notes and our structure

Our leverage and debt service obligations could adversely affect our business, financial condition, results of operations and our ability to satisfy our obligations under our debt, including the Notes and the Note Guarantees

As of June 30, 2022, on a *pro forma* basis after giving effect to the Offering, we would have had an aggregate principal amount of $1,012.5 million of debt outstanding, $305.0 million of which would have been unsecured indebtedness represented by the Notes, $136.1 million of which would have been unsecured indebtedness represented by the 7% Retail Notes and $163.1 million of which would have been unsecured indebtedness represented by the 9% Retail Notes. As of the same date, we had $115.0 million drawn and, after allowing the letter of credit utilization of $52.7 million, $97.3 million remained available for drawdown under the RBL Facility. We will be permitted to borrow substantial additional indebtedness, including secured debt, in the future under the terms of the Indenture.

The degree to which we are leveraged could have important consequences to our business and holders of the Notes, including but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Notes or our other indebtedness;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to make interest and principal payments on our debt, thereby reducing the availability of such cash flow for other purposes;
- limiting our ability to obtain additional financing to fund working capital, capital investments, acquisitions, debt service requirements, business ventures, or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industry in which we do business; and
- adversely affecting our competitive position due to our debt burden being higher than that of our competitors.

Any of these or other consequences or events could have a material adverse effect on our business, financial condition and results of operations and our ability to satisfy our obligations under the Notes.

Despite our current level of debt, we may incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Notes

We and our subsidiaries may incur substantial additional indebtedness in the future, including secured indebtedness and indebtedness that is structurally senior to the Notes. Although the Indenture will contain, and our RBL Facility Agreement does contain, restrictions governing the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If we or our subsidiaries incur new debt or other obligations, the related risks that we face, as described in *"—Our leverage and debt service obligations could adversely affect our business, financial condition, results of operations and our ability to satisfy our obligations under our debt, including the Notes and the Note Guarantees*" and elsewhere in these "*Risk factors*," could increase. In addition, the Indenture will not, and the RBL Facility Agreement does not, prevent us from incurring obligations that do not constitute indebtedness as defined under those agreements. The Indenture will not prevent us from providing guarantees in respect of additional retail notes that would rank *pari passu* with the Note Guarantees.

Our non-Guarantor subsidiaries may also incur substantial additional indebtedness in the future, further increasing the risks associated with leverage. If any of our non-Guarantor subsidiaries incur additional indebtedness, the holders of that debt will be entitled to any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of such subsidiaries ahead of the Noteholders. See "*—The Notes and Note Guarantees will be structurally subordinated to the liabilities and preference shares (if any) of our non-Guarantor subsidiaries*."

For further information regarding our leverage and for more information about our outstanding indebtedness, see "*Management's discussion and analysis of financial condition and results of operations*" and "*Description of certain financing arrangements*."

We require a significant amount of cash to service our debt and sustain our operations, and our ability to generate sufficient cash depends on many factors beyond our control

Our ability to make payments on, or repay or refinance, our debt, and to fund working capital and capital investments, will depend on our future operating performance and ability to generate sufficient cash. This depends on the success of our business strategy and on general economic, financial, competitive, market, legislative, regulatory, technical and other factors as well as the risks discussed in these "*Risk factors*," many of which are beyond our control. In addition, our ability to borrow funds in the future to make payments on our debt will depend on the satisfaction of the covenants in our RBL Facility Agreement and our other debt agreements, including the Indenture, and other agreements we may enter into in the future. Specifically, we will only be permitted to draw under our RBL Facility if no default or event of default is continuing or would result from the utilization and certain representations and warranties are true in all material respects. Therefore, we cannot assure you that our business will generate sufficient cash flow from operations or that future debt and equity financings will be available to us in an amount sufficient to enable us to pay our debt, including the Notes, or to fund our other liquidity needs.

Prior to repayment of the Notes, we will be required to refinance or repay certain other debt, including debt under the RBL Facility. See "*Management's discussion and analysis of financial condition and results of operations*." We cannot assure you that we will be able to refinance or repay any of our debt, including the Notes, on commercially reasonable terms or at all. Any refinancing of our debt could be at higher interest rates than our current debt and may require us to comply with more onerous covenants, which could further restrict our business operations. If we are unable to make payments or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, such as:

- selling assets;
- seeking to raise additional capital;
- restructuring or refinancing all or a portion of our debt on or before maturity;
- foregoing opportunities such as acquisitions of other businesses; or
- reducing or delaying our business activities and capital investments.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on commercially reasonable terms, if at all. Any failure to make payments on our debt, including the Notes, on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Indenture and the RBL Facility, limit or will, and any future debt may also limit, our ability to pursue any of these alternatives. There can be no assurance that any assets that we may elect to sell can be sold or that, if sold, the timing of such sale will be acceptable and the amount of proceeds realized will be sufficient to satisfy our debt service and other liquidity needs. If we are unsuccessful in any of these efforts, we may not have sufficient cash to meet our obligations, which could cause an event of default under our debt and result in:

- our debt holders declaring all outstanding principal and interest to be immediately due and payable;
- the lenders under the RBL Facility being able to terminate their commitments to lend us money and foreclose against the assets securing our borrowings thereunder; and
- our being forced into bankruptcy or liquidation, which could result in you losing your investment in the Notes.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities

The Indenture will, and the 7% Retail Notes Trust Deed, the 9% Retail Notes Trust Deed and our RBL Facility Agreement do, restrict, among other things, our ability to:

- incur additional debt and issue guarantees and preferred stock;
- make certain payments, including dividends and other distributions, with respect to outstanding share capital;
- repay or redeem subordinated debt or share capital;
- create or incur certain liens;
- in the case of the Indenture, impose restrictions on the ability of our subsidiaries to pay dividends or make other payments to the Company and other subsidiaries;
- make certain investments or loans;
- sell, lease or transfer certain assets, including shares of any of our restricted subsidiaries;
- in the case of the Indenture, guarantee certain types of our other indebtedness without also guaranteeing the Notes;
- expand into unrelated businesses;
- merge or consolidate with other entities; and
- enter into certain transactions with affiliates.

All these limitations are subject to significant exceptions and qualifications. See "*Description of Notes—Certain covenants*." Our compliance with these covenants could reduce our flexibility in conducting our operations, particularly by:

- affecting our ability to react to changes in market conditions, whether by increasing our vulnerability in relation to unfavorable economic conditions or by preventing us from profiting from an improvement in those conditions;
- affecting our ability to pursue business opportunities and activities that may be in our interest;
- limiting our ability to obtain certain additional financing in order to meet our working capital requirements, make investments or acquisitions and carry out refinancings; and
- forcing us to dedicate a significant portion of our cash flows to payment of the sums due for such loans, thus reducing our ability to utilize our cash flows for other purposes.

In addition, we are subject to affirmative and financial covenants contained in the RBL Facility Agreement, including the requirement to maintain a specified ratio of consolidated net financial indebtedness to Adjusted EBITDA. See "*Description of certain financing arrangements*." Our ability to meet financial ratios and other tests can be affected by events beyond our control, and we cannot assure you that we will meet them. A breach of any of those covenants, ratios, tests or restrictions could result in an event of default under the RBL Facility Agreement or the Indenture. Upon the occurrence of any event of default under the RBL Facility Agreement, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the facilities and elect to declare all amounts outstanding, together with accrued interest, immediately due and payable. Furthermore, the RBL Facility Agreement will limit or prohibit us from withdrawing funds from bank accounts that consist of amounts that we have received in connection with certain assets or any disposal of such assets or of any subsidiary that holds, whether directly or indirectly, any such asset. In addition, any default under the RBL Facility Agreement or the outstanding 7% Retail Notes and 9% Retail Notes could lead to an event of default and acceleration under other debt instruments that contain cross-default or cross-acceleration provisions, including the Indenture. If our creditors, including the creditors under the RBL Facility or the 7% Retail Notes and 9% Retail Notes accelerate the payment of those amounts, we cannot assure you that our cash flow or our assets and the assets of our subsidiaries would be sufficient to repay in full such amounts, to satisfy all other liabilities of our subsidiaries which may be due and payable and to repay amounts outstanding under the Notes. If we are unable to repay the amounts due and payable under the RBL Facility, our creditors thereunder could proceed against the collateral that secures such debt. Accordingly, we could be forced into bankruptcy or liquidation, and the Company and Guarantors may not be able to fulfill their respective obligations under the Notes and the Note Guarantees.

Certain of our borrowings bear interest at floating rates, which could rise significantly, thereby increasing our interest cost and reducing cash flow

A portion of our indebtedness, including borrowings under the RBL Facility, bear interest at per annum rates equal to a risk free rate for the relevant currency, in each case adjusted periodically, plus a margin and a credit adjustment spread, if applicable. Interest rates could rise significantly in the future, thereby increasing our interest expenses associated with these obligations, reducing cash flow available for capital investments and limiting our ability to make payments on the Notes. Although we have entered into certain hedging arrangements designed to fix a portion of these rates and may continue to do so, there can be no assurance that hedging will be available or continue to be available on commercially reasonable terms. In addition, hedging itself carries certain risks, including that we may need to pay a significant amount (including costs) to terminate any hedging arrangements.

The Company is a holding company that has no revenue generating operations of its own and will depend on cash from its operating companies to be able to make payments on the Notes

The Company is a holding company with no business operations or significant assets other than the equity interests it holds in its subsidiaries and certain intercompany loans. Following the Transactions, the Company's material liabilities will be the Notes, amounts due to subsidiaries under intercompany loans and amounts outstanding under the 7% Retail Notes and the 9% Retail Notes as well as the RBL Facility. The Company will be dependent upon cash flows from its operating subsidiaries in the form of loans, dividends or other distributions and payments to meet its obligations, including its obligations under the Notes. However, subsidiaries of the Company that do not guarantee the Notes have no obligation to pay amounts due under the Notes or to make funds available for that purpose. If our subsidiaries do not distribute cash to the Company to make scheduled payments on the Notes, the Company may not have any other source of funds that would allow it to make payments to holders of the Notes.

The amounts of dividends and distributions available to the Company will depend on the profitability and cash flow of its subsidiaries, which, in turn, will be affected by all the factors discussed in these "*Risk factors*" and elsewhere in this Offering Memorandum. Even if the subsidiaries of the Company have sufficient cash available, they may be restricted or prevented from distributing dividends or advancing upstream loans to the Company to make payments in respect of its indebtedness, including the Notes. Various agreements governing our debt may restrict, and in some cases, may prevent the ability of the subsidiaries to move cash within their restricted group. Applicable laws may also limit the amounts that our subsidiaries will be permitted to pay as dividends or distributions on their equity interests, or even prevent such payments. Such laws include financial assistance rules, corporate benefit laws, requirements that dividends must be paid out of reserves available for distribution and other legal restrictions which, if violated, might require the recipient to refund unlawful payments. Therefore, even if the Company and its subsidiaries, in aggregate, have sufficient resources to meet their obligations, they may not be permitted to make the necessary transfers from the entity or entities with funds to the entity owing the obligations under the Notes or the Note Guarantees. Applicable tax laws may also subject such payments to further taxation.

Although the Indenture will limit the ability of our restricted subsidiaries to enter into future consensual restrictions on their ability to pay dividends and make other payments to the Company, there are significant qualifications and exceptions to these limitations. Arrangements with the Company's subsidiaries and the funding permitted by the agreements governing existing and future indebtedness of the Company's subsidiaries may not provide the Company with sufficient dividends, distributions and loans to fund payments on the Notes when due. See "*Description of certain financing arrangements*" and "*Description of Notes*."

Each of the Note Guarantees will be subordinated to our existing and future senior debt

The Note Guarantees will each be the senior subordinated obligations of the Guarantors and:

- subordinated in right of payment to all existing and future senior obligations of the respective Guarantor, including, where applicable, such Guarantor's obligations under the RBL Facility;
- *pari passu* in right of payment with all future senior subordinated obligations of that Guarantor;
- senior in right of payment to all future obligations of that Guarantor that are expressly contractually subordinated to that Guarantor's Note Guarantee; and

- effectively subordinated to all existing and future secured obligations of that Guarantor (including under the RBL Facility, where applicable), to the extent of the value of the property and assets securing such obligations, unless such assets also secure the Note Guarantees on an equal and ratable or prior basis.

See "*Description of certain financing arrangements—Guarantee Subordination Agreement" and "Description of Notes*."

In addition, no enforcement action with respect to the Note Guarantees (or any future guarantee of the Notes) may be taken unless (subject to certain limited exceptions): (i) any enforcement action has been taken with respect to a Guarantor in relation to our senior debt (provided that the Trustee on its own behalf and on behalf of the holders of the Notes will be limited to taking the same action against that same Guarantor); (ii) certain insolvency, liquidation or other similar enforcement events with respect to a Guarantor have occurred and such actions are taken with respect to such Guarantor (subject to certain limited exceptions) or (iii) there is a continuing event of default under the Notes after a period of 179 days (or earlier in limited circumstances) from the date the agents with respect to our senior debt received written notice of such default. See "*Description of certain financing arrangements—Guarantee Subordination Agreement*."

Upon any distribution to the creditors of a Guarantor in a liquidation, administration, bankruptcy, moratorium of payments, dissolution or other winding-up of such Guarantor, the holders of senior debt of such Guarantor will be entitled to be paid in full before any payment may be made with respect to the Guarantor's Note Guarantee. In addition, any amount available for distribution to the Noteholders after senior creditors of such Guarantor, including lenders under the RBL, have been repaid in full would be shared on a *pro rata* basis with other creditors of such Guarantor who also benefit from a senior subordinated guarantee of such Guarantor. As a result, holders of the Notes may receive less than the holders of senior debt of the Guarantors and may not be able to recover their investment in full.

There are circumstances other than repayment or discharge of the Notes under which the Note Guarantees will be released automatically, without your consent or the consent of the Trustee

Under various circumstances, the Note Guarantees will be released automatically, including:

- in connection with any sale or other disposition of all or substantially all the properties or assets of the respective Guarantor (including by way of merger, amalgamation or consolidation) to a person that is not (either before or after giving effect to such transaction) the Company or a restricted subsidiary of the Company, if the sale or other disposition does not violate the "*Asset Sale*" provisions of the Indenture;

- in connection with any sale or other disposition of the capital stock of the respective Guarantor (whether by direct sale or through a holding company) to a person that is not (either before or after giving effect to such transaction) the Company or a restricted subsidiary of the Company, if the sale or other disposition does not violate the "*Asset Sale*" provisions of the Indenture and as a result of such disposition such Guarantor no longer qualifies as a subsidiary of the Company;

- if the Company designates the respective Guarantor (or any parent entity thereof) as an unrestricted subsidiary in accordance with the applicable provisions of the Indenture;

- upon repayment in full of the Notes or upon Legal Defeasance or Covenant Defeasance as described under the "*Legal defeasance and covenant defeasance*" provisions of the Indenture or upon satisfaction and discharge of the Indenture as described under the "*Satisfaction and discharge*" provisions of the Indenture;

- upon the liquidation or dissolution of the respective Guarantor; *provided* that no default or event of default has occurred or is continuing;

- as described under the "*Amendment, supplement and waiver*" provision of the Indenture; or

- upon the respective Guarantor consolidating or amalgamating with, merging into or transferring all its properties or assets to the Company or another Guarantor, and as a result of, or in connection with, such transaction such Guarantor dissolving or otherwise ceasing to exist.

In addition, the Note Guarantees will be subject to release in connection with certain enforcement actions taken by the security agent or certain creditors under the Guarantee Subordination Agreement. The Guarantee Subordination Agreement provides that the security agent or certain creditors named therein shall not, in an enforcement scenario, exercise their rights to release the relevant Note Guarantees unless, with respect to the relevant sale or disposal:

- the proceeds of such sale or disposal are in cash (or substantially in cash);
- all present and future obligations owed to the creditors under certain senior finance documents by a member of our group are unconditionally released and discharged or sold or disposed of concurrently with such sale; and
- such sale or disposal (including any sale or disposal of any claim) is made:
  - (a) pursuant to a public auction; or
  - (b) where an independent investment bank or an internationally recognized firm of accountants selected by such security trustee has delivered an opinion to the trustee of the Notes in respect of such sale or disposal that the amount received in connection therewith is fair from a financial point of view taking into account all relevant circumstances including the method of enforcement and the circumstances giving rise to such sale.

Upon any release of a Note Guarantee by a Guarantor in connection with an enforcement sale as described above, senior creditors of such Guarantor would be entitled to be paid in full before any payment may be made to the holders of the Notes, who would share such proceeds on a *pro rata* basis with other creditors, benefitting from a senior subordinated guarantee of such Guarantor.

The Notes and Note Guarantees will be structurally subordinated to the liabilities and preference shares (if any) of our non-Guarantor subsidiaries

Some, but not all, of our subsidiaries will guarantee the Notes. Generally, claims of creditors of a non-Guarantor subsidiary, including trade creditors, and claims of preference shareholders (if any) of such subsidiary, will have priority with respect to the assets and earnings of such subsidiary over the claims of creditors of its parent entity, including claims by holders of the Notes under the Note Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of any of our non-Guarantor subsidiaries, holders of such subsidiary's indebtedness and its trade creditors will generally be entitled to payment of their claims in full from the assets of such subsidiary before any assets are made available for distribution to its parent entity as equity holder and the creditors of the Company and the Guarantors (including holders of the Notes) will have no right to proceed against such subsidiary's assets except claims as an equity holder to the extent the Company or any of the Guarantors is a direct parent entity of such subsidiary. As such, the Notes and Note Guarantees will be structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of our non-Guarantor subsidiaries. Although our non-Guarantor subsidiaries currently represent only a small portion of our revenue and other operating income, the covenants in the Notes will permit these non-Guarantor subsidiaries to incur additional indebtedness, which may also be secured, and will not contain any limitation on the amount of other liabilities, such as trade payables, that may be incurred by these subsidiaries. In the future the revenue and other operating income of such entities could increase, possibly substantially.

As of and for the six months ended June 30, 2022, our subsidiaries that are not Guarantors collectively represented 18% of our consolidated total assets and did not contribute to our revenue and other operating income. As of June 30, 2022 and on a *pro forma* basis after giving effect to the Offering, such non-Guarantors were not obligors on any of our consolidated third party debt, but were in some cases guarantors under the RBL Facility.

If the non-Guarantor subsidiaries were to incur significant indebtedness and/or grant security over their assets, there is a risk that this would diminish the assets available to the Noteholders should the Company become unable to make payments under the Notes.

Claims of the secured creditors of the Company and the Guarantors will have priority with respect to their collateral over the claims of unsecured creditors, such as the holders of the Notes, to the extent of the value of the assets securing such indebtedness

Claims of the secured creditors of the Company and the Guarantors will have priority with respect to the assets securing their indebtedness over the claims of holders of the Notes. As such, the Notes and Note Guarantees will be effectively subordinated to any secured indebtedness and other secured obligations of the Company and the Guarantors (including obligations under the RBL Facility) to the extent of the value of the assets securing such indebtedness or other obligations (except to the extent such assets in the future also secure the Notes and/or the relevant Note Guarantees on an equal and ratable basis or priority basis). In the event of any foreclosure, dissolution, winding up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of the Company or any Guarantor that has secured obligations, holders of secured indebtedness will have priority claims to the assets of the Company or such Guarantor that constitute their collateral (other than to the extent such assets in the future also secure the Notes or the relevant Note Guarantees on an equal and ratable basis or priority basis). Subject to the limitations referred to under the caption "*—Each Note Guarantee will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability*," the holders of the Notes will participate ratably with all holders of the unsecured indebtedness of the Company or the relevant Guarantor (other than our indebtedness to which the Note Guarantees have been expressly subordinated), and potentially with all their other general creditors, based upon the respective amounts owed to each holder or creditor, in the remaining assets of the Company or the relevant Guarantor. If any of the secured indebtedness of the Company or the relevant Guarantor becomes due or the creditors thereunder proceed against the operating assets that secure such indebtedness, our assets remaining after repayment of that secured indebtedness may not be sufficient to repay all amounts owing in respect of the Notes or the relevant Note Guarantee. As a result, holders of Notes may receive less, ratably, than holders of secured indebtedness of the Company or the relevant Guarantor.

The insolvency laws of England and Wales, Scotland and Malaysia may not be as favorable to you as insolvency laws of jurisdictions with which you may be familiar and may preclude noteholders from recovering payments due on the Notes

The Company and certain of the Guarantors are organized under the laws of England and Wales, Scotland and Malaysia. Future subsidiaries of the Company may be incorporated in other jurisdictions and are or may be subject to the insolvency laws of such jurisdictions. Moreover, pursuant to Regulation (EU) 2015/848 of the European Parliament and of the Council of May 20, 2015 on insolvency proceedings (recast) (the "**Recast EU Insolvency Regulation**"), if a company conducts business in more than one Member State of the European Union, the insolvency laws of the Member State (other than Denmark) in which such company's centre of main interests ("**COMI**") is found may apply, which could be the laws of a Member State different from the jurisdiction of incorporation.

There are a number of factors that are taken into account to ascertain the COMI, which should correspond to the place where the company conducts the administration of its interests on a regular basis and is therefore ascertainable by third parties. The point at which this issue will be determined is at the time when the relevant insolvency proceedings are opened. The determination of where we or our subsidiaries have our or their COMI would be a question of fact on which the courts of the different EU Member States may have differing and even conflicting views. It should also be noted that no final decisions have been taken in cases that have been brought before the European Court of Justice in relation to questions of interpretation or the effects of the EU Insolvency Regulation throughout the European Union. Furthermore, a company's COMI is not a static concept and may change from time to time.

The insolvency laws of these jurisdictions may not be as favorable to your interests as creditors as the bankruptcy laws of United States, or certain other jurisdictions. If the Company or one or more of the Guarantors experiences financial difficulties, it is not possible to predict with certainty in which jurisdiction the insolvency or similar proceedings would first be commenced or how these proceedings would be resolved. The insolvency, administration and other laws of the jurisdictions in which the respective companies are organized or operate may be materially different from, or conflict with, each other. Any conflict between them could call into question whether, and to what extent, the laws of any particular jurisdiction should apply. There can be no assurance as to how the insolvency laws of these jurisdictions will be applied in relation to one another, which may adversely affect your ability to enforce your rights under the Notes and the Note Guarantees in those jurisdictions or limit any amounts that you may receive. In addition, the grant of the Note Guarantees by the respective Guarantors may be subject to challenge in the relevant local insolvency proceedings.

For a more detailed description of the insolvency laws of England and Wales, Scotland and Malaysia, see "*Certain insolvency law considerations*."

Each Note Guarantee will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability

As of the Issue Date, the Guarantors will guarantee the obligations under the Notes on a senior subordinated basis. Each Note Guarantee will provide holders of the Notes with a direct claim against the relevant Guarantor. However, the Indenture will provide that each Note Guarantee will be limited to the maximum amount that can be guaranteed by the relevant Guarantor without rendering the relevant Note Guarantee voidable or otherwise limited or ineffective under applicable law or causing the officers of the Guarantor to incur personal civil or criminal liability, and enforcement of each Note Guarantee will be subject to certain generally defenses available to the Guarantors in the relevant jurisdiction. Although laws differ among jurisdictions, the laws and defenses generally include those that relate to corporate purpose or benefit, fraudulent conveyance or transfer, voidable preference, insolvency or bankruptcy challenges, financial assistance, preservation of share capital, thin capitalization, related third party transactions, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally. If one or more of these laws and defenses are applicable, a Guarantor may have no liability or decreased liability under its Note Guarantee depending on the amounts of its other obligations and applicable law. Limitations on the enforceability of judgments obtained in New York courts in the jurisdiction of incorporation or organization of a Guarantor could also limit the enforceability of the relevant Note Guarantee against such Guarantor.

Although laws differ among jurisdictions, in general, under bankruptcy or insolvency law and other laws, a court could (i) avoid or invalidate all or a portion of a Guarantor's obligations under its Note Guarantee, (ii) direct the holders of the Notes to return any amounts paid under a Note Guarantee to the relevant Guarantor or to a fund for the benefit of the Guarantor's other creditors or (iii) take other action that is detrimental to you, typically if the court found that:

- the relevant Note Guarantee was incurred with actual intent to give preference to one creditor over another, hinder, delay or defraud creditors or shareholders of the Guarantor or, in certain jurisdictions, when the granting of the Note Guarantee has the effect of giving a creditor a preference or when the recipient was aware that the Guarantor was insolvent when it granted the relevant Note Guarantee or became so as a result of it;

- the Guarantor did not receive fair consideration or reasonably equivalent value or corporate benefit for the relevant Note Guarantee and the Guarantor: (i) was insolvent or rendered insolvent because of the relevant Note Guarantee; (ii) was undercapitalized or became undercapitalized because of the relevant Note Guarantee; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity;

- the relevant Note Guarantee was not validly established or authorized or otherwise contravenes the relevant Guarantor's articles of association;

- the relevant Note Guarantee was held to exceed the corporate objects of the Guarantor or not to be in the best interests or for the corporate benefit of the Guarantor; or

- the amount paid or payable under the relevant Note Guarantee was in excess of the maximum amount permitted under applicable law.

These or similar laws may also apply to any future guarantee granted by any of our subsidiaries pursuant to the Indenture.

We cannot assure you which standard a court would apply in determining whether a Guarantor was "insolvent" at the relevant time or that, regardless of the method of valuation, a court would not determine that a Guarantor was insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor was insolvent on the date its Note Guarantee was issued, that payments to holders of the Notes constituted preferences, transactions at an undervalue, fraudulent transfers or conveyances on other grounds.

The measures of insolvency for purposes of fraudulent transfer laws vary depending upon applicable law. Generally, an entity would be considered insolvent if, at the time it incurred indebtedness:

- the sum of its liabilities, including contingent and prospective liabilities, is greater than the value of all its assets;

- the present fair saleable value of its assets is less than the amount required to pay the probable liability on its existing debts and liabilities, including contingent liabilities, as they become due; or

- it cannot pay its debts as they become due.

The liability of each Guarantor under its Note Guarantee will be limited to the amount that will result in such Note Guarantee not constituting a preference, transaction at an undervalue, fraudulent conveyance or improper corporate distribution or otherwise being set aside. There can be no assurance, however, as to what standard a court will apply in making a determination of the maximum liability of each Guarantor. There is a possibility that the entire Note Guarantee may be set aside, in which case the entire liability of such Guarantor may be extinguished.

If a court decided that a Note Guarantee was a preference, transaction at an undervalue, fraudulent transfer or conveyance and voided such Note Guarantee, or held it unenforceable for any other reason, you may cease to have any claim in respect of a relevant Guarantor and would be a creditor solely of the Company and, if applicable, of the other Guarantors under the relevant Note Guarantees which have not been declared void. If any Note Guarantee is invalid or unenforceable, in whole or in part, or to the extent the agreed limitation of the Note Guarantee obligations apply, the Notes would be effectively subordinated to all liabilities of the applicable Guarantor.

We may not be able to obtain the funds required to repurchase the Notes upon a change of control

The Indenture will contain provisions relating to certain events constituting a "change of control" of the Company. Upon the occurrence of certain events constituting a change of control, we will be required to offer to repurchase all outstanding Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the date of repurchase.

If a change of control were to occur, we cannot assure you that we would have sufficient funds available at such time to pay the purchase price of the outstanding Notes or that the restrictions in the RBL Facility Agreement, the 7% Retail Notes, the 9% Retail Notes, the Guarantee Subordination Agreement or our other existing contractual obligations would allow us to make such required repurchases. A change of control may result in an event of default under, or acceleration of, our indebtedness. For example, lenders under the RBL Facility may require the repayment of their respective loans outstanding thereunder upon the occurrence of a change of control. The repurchase of the Notes pursuant to such a change of control offer could also cause a default under our indebtedness, even if the change of control itself does not. The source of funds for any repurchase required will be available cash or cash generated from operating activities or other sources, including borrowings, sales of assets or sales of equity or funds provided by subsidiaries. The ability of the Company to receive cash from its subsidiaries to allow it to pay cash to the holders of the Notes following the occurrence of a change of control may be limited by our then existing debt instruments as well as applicable law. If we require third party financing to make an offer to repurchase the Notes upon a change of control, we cannot assure you that we will be able to obtain such financing. Any failure by the Company to offer to purchase the Notes upon a change of control would constitute a default under the Indenture, which would, in turn, trigger a default under the RBL Facility. See "*Description of Notes—Repurchase at the option of holders—Change of control*."

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger, recapitalization or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "change of control" as defined in the Indenture. Except as described under "*Description of Notes—Repurchase at the option of holders—Change of control*," the Indenture will not contain provisions that would require the Company to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of "change of control" in the Indenture will include a disposition of all or substantially all the assets of the Company and its restricted subsidiaries, taken as a whole, to any person (subject to certain exceptions). Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Company and its restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Company is required to make an offer to repurchase the Notes.

Enforcing your rights as a holder of the Notes or under the Note Guarantees across multiple jurisdictions may prove difficult or provide less protection than U.S. bankruptcy law and may preclude holders of the Notes from recovering payments due on the Notes

The Company is established under the laws of England and Wales and certain of the Guarantors are established under the laws of England and Wales, Scotland and Malaysia and future Guarantors may be established under the laws of other jurisdictions. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in England and Wales, Scotland and Malaysia or any, all or any combination of the jurisdictions of future guarantors. Such jurisdictions may not be as favorable to investors as the laws of the United States or other jurisdictions with which investors are familiar, and proceedings in these jurisdictions are likely to be complex and costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and the Note Guarantees will be subject to the bankruptcy, insolvency and administrative laws of such jurisdictions and there can be no assurance that you will be able to effectively enforce your rights in such multiple, complex bankruptcy, insolvency or similar proceedings. See "*—Each Note Guarantee will be subject to* *certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability*."

In the event that one or more of the Company, the Guarantors and any future Guarantor, if any, or any of our other subsidiaries experiences financial difficulty, the bankruptcy, insolvency, administrative and other laws of our and the Guarantors' jurisdictions of organization and location of assets may be materially different from, or in conflict with, each other and those of the United States, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceedings. The application of these laws, or any conflict among them, could call into question whether the law of any particular jurisdiction should apply, and may adversely affect your ability to enforce your rights under the Notes and the Note Guarantees in those jurisdictions or limit any amounts that you may receive. See "*Service of process and enforcement of civil liabilities*" with respect to certain of the jurisdictions mentioned above.

You may face currency exchange risks or adverse tax consequences by investing in the Notes denominated in currencies other than your reference currency

The Notes will be denominated and payable in U.S. dollars. If you are a pounds sterling, euro or other non-U.S. dollar investor, an investment in the Notes will entail currency exchange-related risks due to, among other factors, possible significant changes in the value of the U.S. dollar to pounds sterling, euro or other relevant currencies because of economic, political or other factors over which we have no control. Depreciation of the U.S. dollar against pounds sterling, euro or other relevant currencies could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to you when the return on the Notes is translated into the currency by reference to which you measure the return on your investments.

There may be tax consequences for you as a result of any foreign currency exchange gains or losses resulting from your investment in the Notes. You should consult your tax advisor concerning the tax consequences to you of acquiring, holding and disposing of the Notes.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time

One or more independent credit rating agencies may assign credit ratings to the Notes. The credit ratings address our and the Company's ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

The transferability of the Notes may be limited under applicable securities laws, which may adversely affect their liquidity and value

The Notes and the Note Guarantees have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or any other jurisdiction. Therefore, you may not transfer or sell the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws or laws of any other jurisdiction, or pursuant to an effective registration statement, and you may be required to bear the risk of your investment in the Notes for an indefinite period of time. The Notes are not being offered for sale in the United States except to "qualified institutional buyers" in accordance with Rule 144A, and we have not agreed to or otherwise undertaken to register the Notes with the U.S. Securities and Exchange Commission (including by way of an exchange offer). In addition, by acceptance of delivery of any Notes, the holder thereof agrees on its own behalf and on behalf of any investor accounts for which it has purchased the Notes that it shall not transfer the Notes in an aggregate principal amount of less than $200,000. It is the obligation of holders of the Notes to ensure that their offers and sales of the Notes within the United States and other countries comply with applicable securities laws. See "*Notice to investors*."

You may be unable to enforce judgments obtained in U.S. courts against the Company

The Company, the Guarantors and their respective subsidiaries are organized outside of the United States. Most of our directors and executive officers and the directors and executive officers of the Guarantors are non-residents of the United States and all their respective assets will be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company, the Guarantors or their respective directors and executive officers, or to enforce any judgments obtained in U.S. courts predicated upon civil liability provisions of the U.S. securities laws. Additionally, there is doubt as to the enforceability in many foreign jurisdictions of civil liabilities based on the civil liability provisions of the federal or state securities laws of the United States against entities and persons who are not residents of the United States. See "*Service of process and enforcement of civil liabilities*."

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Notes will initially only be issued in global form and held through DTC. We refer to beneficial interests in such global notes as "Book-Entry Interests."

Interests in the global notes will trade in book-entry form only, and the Notes in definitive registered form, or Definitive Registered Notes, will be issued in exchange for Book-Entry Interests only in very limited circumstances. Owners of Book-Entry Interests will not be considered owners of the Notes. The nominee for DTC will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to Deutsche Bank Trust Company Americas, as principal paying agent, which will make payments to DTC. Thereafter, such payments will be credited to participants' accounts that hold Book-Entry Interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to DTC, none of the Company, the Guarantors, the Trustee or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments of interest, principal or other amounts by DTC or to owners of Book-Entry Interests. Accordingly, if you own a Book-Entry Interest, you must rely on the procedures of DTC, and if you are not a participant in DTC, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture.

Unlike holders of the Notes themselves, owners of Book-Entry Interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Notes (including upon the occurrence of an event of default). Instead, if you own a Book-Entry Interest, you will be reliant on the nominee of DTC (as registered holder of the Notes) to act on your instructions and/or will be permitted to act directly only to the extent you have received appropriate proxies to do so from DTC or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions or to take any other action (including to exercise your rights under the Notes) on a timely basis. See "*Book-entry, delivery and form*."

There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited

The Notes are new securities for which there is currently no market. We cannot assure you as to:

- the liquidity of any market in the Notes;
- your ability to sell your Notes; or
- the prices at which you may be able to sell your Notes.

Future trading prices for the Notes will depend on many factors, including the liquidity of the market for the Notes, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our own financial condition, performance and prospects, as well as third party recommendations. Historically, the market for non-investment grade securities has from time to time been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes will depend on the number of holders of the Notes and may be adversely affected by a general decline in the market for similar securities. In addition, the trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. The Initial Purchasers have informed us that they intend to make a market in the Notes. However, they are not obligated to do so and may discontinue such market-making at any time without notice. As a result, we cannot assure you that an active trading market for the Notes will develop or, if one does develop, that it will be maintained, and any disruption in the trading market for the Notes may have a negative effect on your investment regardless of our prospects and financial performance. If no active trading market develops, you may not be able to resell your Notes at fair value, if at all.

The Notes may not become or remain listed on the Luxembourg Stock Exchange

Application will be made to list the Notes on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market. However, there can be no assurance that the Notes will become or remain listed. If the Company cannot maintain the listing on the Luxembourg Stock Exchange and the admission to dealing on the Official List thereof, or if it becomes unduly burdensome to make or maintain such listing, the Company may cease to make or maintain such listing on the Official List of the Luxembourg Stock Exchange. Listing of the Notes on the Luxembourg Stock Exchange does not imply that a public offering of the Notes in Luxembourg has been authorized. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Official List of the Luxembourg Stock Exchange or another recognized listing exchange for comparable issuers, failure to be approved for listing of the Notes on the Official List of the Luxembourg Stock Exchange or another recognized listing exchange or the delisting of the Notes from the Official List of the Luxembourg Stock Exchange or another listing exchange may have an adverse effect on a holder's ability to resell Notes in the secondary market.

Certain covenants may be suspended upon the occurrence of a change in our ratings

The Indenture will provide that, if at any time following the date of the Indenture, the Notes receive a rating as follows by two of the following three rating agencies: Baa3 or better by Moody's, BBB- or better by Standard & Poor's or Fitch, and no default or event of default has occurred and is continuing, then beginning that day the following provisions of the Indenture will not apply to the Notes:

- "*Repurchase at the option of holders—Asset sales*";
- "*Certain covenants—Restricted payments*";
- "*Certain covenants—Incurrence of indebtedness and issuance of preferred stock*";
- "*Certain covenants—Dividend and other payment restrictions affecting subsidiaries*";
- "*Certain covenants—Designation of restricted and unrestricted subsidiaries*."
- "*Certain covenants—Transactions with affiliates*";
- "*Certain covenants—Limitation on guarantees of indebtedness by restricted subsidiaries*";
- clause (4) of the first paragraph of the covenant described under "*Certain covenants—Merger, consolidation or sale of assets*"; and
- "*Certain covenants—Limitation on lines of business*."

Notwithstanding the foregoing, if the rating assigned by any such rating agency to such Notes should subsequently decline to below Baa3 or BBB-, as applicable, the foregoing covenants will be reinstituted as of and from the date of such rating decline. If these covenants were to be suspended, we would be able to incur additional debt or make payments, including dividends or investments, without restrictions under the Notes, which may conflict with the interests of holders of the Notes. There can be no assurance that the Notes will ever achieve an investment grade rating or that any such rating will be maintained.

The Indenture will not be qualified under the U.S. Trust Indenture Act of 1939, as amended

The Indenture will not be required to, and will not be, qualified under the U.S. Trust Indenture Act of 1939, as amended (the "**TIA**") and will not incorporate nor include and will not be subject to any of the provisions of the TIA. Consequently, the holders of Notes will not be entitled to the protections provided under the TIA to holders of debt securities issued under a qualified indenture, including those respecting preferential collections by the trustee or conflicting interests of the trustee. See "*Description of Notes.*"

Investors in the Notes may have limited recourse against the independent auditors

The audit report of Ernst & Young LLP relating to the group financial statement as of and for the year ended December 31, 2019 and the audit reports of Deloitte LLP relating to the group financial statements as of and for the years ended December 31, 2020 and 2021 reproduced herein, in accordance with guidance issued by the Institute of

Chartered Accountants in England and Wales, state: "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."

The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the U.S. Securities Act or in a report filed under the U.S. Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**"). If a U.S. court (or any other court) were to give effect to the language above, the recourse that holders of the Notes may have against the independent auditors based on their reports or the group financial statements to which they relate could be limited.

The Notes will be issued with original issue discount for U.S. federal income tax purposes

The Notes will be issued with OID for U.S. federal income tax purposes. Holders subject to U.S. federal income tax will generally be required to include such OID in gross income (as ordinary income) as it accrues (on a constant yield to maturity basis) for U.S. federal income tax purposes in advance of the receipt of cash payments to which such OID is attributable and regardless of the holder's regular method of accounting for U.S. federal income tax purposes. See "*Taxation—Certain United States federal income tax considerations to U.S. holders—Original issue discount*".

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the Notes in this offering for cash consideration will be approximately $290.8 million, after deducting fees and expenses. We intend to use the net proceeds from the issue of the Notes, along with drawings under the RBL Facility and cash on hand, for (i) the redemption of the aggregate principal amount of the Existing Senior Notes (the "**Redemption**") and (ii) the payment of fees, costs and expenses in connection with the Transactions. Actual amounts may vary from estimated amounts depending on several factors, including differences from our estimates of fees and expenses. For descriptions of our current and anticipated indebtedness following the Offering, see "*Description of certain financing arrangements*" and "*Description of Notes*." See also "*Capitalization*."

Sources of funds	**($ millions)**	**Uses of funds**	**($ millions)**
Notes offered hereby[1]	300.8	Redemption of Existing Senior Notes[3]	792.3
RBL Facility[2]	400.0	Fees, costs and expenses[4]	10.0
Cash on balance sheet	101.5		
Total sources	**802.3**	**Total uses**	**802.3**

(1) Represents $305.0 million the aggregate principal amount of the Offering at an issue price of 98.611%.

(2) Represents $400.0 million that will be drawn under the RBL Facility on the Issue Date to partially fund the Redemption. As of June 30, 2022, we had $115.0 million drawn under the RBL Facility (excluding $7.7 million of unamortized fees). Between June 30, 2022 and August 31, 2022, we made a voluntary repayment of $25.0 million and on September 21, 2022, we repaid the remaining $90.4 million (including $0.4 million of accrued and unpaid interest) outstanding under the RBL Facility with cash on balance sheet. Following this and prior to the Issue Date, the Company as borrower, BNP Paribas as facility agent and other parties entered into an amendment of the RBL Facility, which reduced the aggregate principal amount of commitments from $750.0 million to $500.0 million, with a sublimit in the form of letters of credit of $75.0 million (the "**RBL Amendment**").

(3) Represents the repayment of certain amounts outstanding under the Existing Senior Notes, excluding an estimated $1.5 million of accrued and unpaid interest to but excluding the assumed redemption date of October 25, 2022.

(4) This amount reflects our estimate of fees and expenses we will pay in connection with the Transactions, including breakage fees, underwriting fees and commissions, other transaction costs and professional fees.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2022 on a historical basis and as adjusted to reflect the Transactions and the Repayments, including the application of the net proceeds of the Notes as described in "*Use of proceeds*" as if these events had occurred on June 30, 2022.

This table should be read in conjunction with "*Use of proceeds*," "*Management's discussion and analysis of financial condition and results of operations*," "*Description of certain financing arrangements*" and the group financial statements and the accompanying notes appearing elsewhere in this Offering Memorandum. Except as set forth below, there have been no other material changes to our capitalization since June 30, 2022.

Actual amounts may vary from estimated amounts depending on several factors, including differences from our estimate of fees and expenses, fluctuations in cash on hand between September 30, 2022 and the Issue Date and fluctuations in applicable exchange rates.

	As of June 30, 2022	
	Historical[(1)]	**As adjusted for the Repayments and the Transactions**[(1)]
	(in millions of $)	
Cash and cash equivalents[(2)]	369.7	253.1
Debt		
RBL Facility[(3)]	115.0	400.0
SVT Working Capital Facility[(4)]	8.3	8.3
7% Retail Notes[(5)]	136.1	136.1
9% Retail Notes[(6)]	163.1	163.1
Existing Senior Notes[(7)]	827.2	—
Notes offered hereby[(8)]	—	305.0
Total debt	**1,249.7**	**1,012.5**
Total equity	**726.4**	**726.4**
Total capitalization[(9)]	**1,976.1**	**1,738.9**

(1) Unless otherwise indicated, U.S. dollar equivalents of pound sterling amounts are translated at an exchange rate of $1.22326 to £1.00, which is the OandA Exchange Rate used for our balance sheet as of June 30, 2022. The OandA Exchange Rate on September 30, 2022, was $1.11353 to £1.00.

(2) As of June 30, 2022, our $369.7 million of cash and cash equivalents ((£302.2 million) converted at an exchange rate of $1.22326 to £1.00, which is the OandA Exchange Rate used for our balance sheet as of June 30, 2022) included $9.5 million of restricted cash and $276.7 million of ring-fenced funds held in joint venture operational accounts. Between June 30, 2022 and September 30, 2022, we used cash and cash equivalents of $34.9 million for repayments of the Existing Senior Notes and $25.0 million to voluntarily repay amounts outstanding under the RBL Facility, and on September 21, 2022 we repaid $90.4 million (including $0.4 million of accrued and unpaid interest) of outstanding amounts under the RBL Facility (together, the "**Repayments**")). As of September 30, 2022, our cash and cash equivalents were $322.8 million (£289.9 million converted at an exchange rate for September 30, 2022 of $1.11353 to £1.00).

As adjusted cash and cash equivalents represents $354.6 million (calculated as cash and cash equivalents on September 30, 2022 (£289.9 million) converted at an exchange rate of $1.22326 to £1.00, which is the OandA Exchange Rate used for our balance sheet as of June 30, 2022), and includes $10.1 million of restricted cash and $195.9 million of ring-fenced funds held in joint venture operational accounts (in each case converted using the OandA Exchange Rate used for our balance sheet as of June 30, 2022), adjusted to reflect the use of an estimated $101.5 million of cash on balance sheet in connection with the Transactions as set forth under "*Use of Proceeds*" but excluding the expected payment of $27.7 million of accrued interest on the Existing Senior Notes due on October 15, 2022.

(3) The as adjusted column represents $400.0 million that will be drawn under the RBL Facility on the Issue Date to partially fund the Redemption. The RBL Facility Agreement was initially entered into on June 10, 2021. As of June 30, 2022, we had $115.0 million drawn under the RBL Facility (including $7.7 million of unamortized fees). Between June 30, 2022 and August 31, 2022, we made voluntary repayments of $25.0 million and, on September 21, 2022, we made a further voluntary repayment of the entire remaining $90.4 million (including $0.4 million of accrued and unpaid interest) of outstanding borrowings under the RBL Facility. Following this and prior to the Issue Date, the Company as borrower, BNP Paribas as facility agent and other parties entered into the RBL Amendment, which reduced the aggregate principal amount of commitments from $750.0 million to $500.0 million, with a sublimit in the form of letters of credit of $75.0 million. Estimated fees, discounts and expenses associated with the RBL Amendment are excluded from the table above. The RBL Facility is guaranteed by each of the Guarantors and secured on the shares and assets of the Guarantors. See "*Description of certain financing arrangements—RBL Facility*."

(4) Represents the $8.3 million (£6.8 million converted at an exchange rate of $1.22326 to £1.00, which is the OandA Exchange Rate used for our balance sheet as of June 30, 2022) outstanding under the SVT Working Capital Facility. On December 1, 2020, we extended, for a further three years, the £42.0 million revolving loan with a joint operator partner to fund the short-term working capital requirements on the acquisition of SVT and associated interests. The facility accrues interest at 1.0% per annum plus SONIA. See "*Description of certain financing arrangements—SVT Working Capital Facility*."

(5) Represents the $136.1 million (£111.3 million converted at a rate of $1.22326 to £1.00, which is the OandA Exchange Rate used for our balance sheet as of June 30, 2022) aggregate principal amount of the 7% Retail Notes as of June 30, 2022, including capitalized interest of $25.4 million but excluding accrued interest and IFRS 9 EIR adjustment of $3.8 million. The 7% Retail Notes accrue interest at a fixed coupon of 7.0% payable semi-annually in arrears. See "*Description of certain financing arrangements—7% Retail Notes*."

(6) Represents the $163.1 million (£133.3 million converted at a rate of $1.22326 to £1.00, which is the OandA Exchange Rate used for our balance sheet as of June 30, 2022) aggregate principal amount of the 9% Retail Notes as of June 30, 2022, excluding accrued interest and IFRS 9 EIR adjustment of $2.2 million. The 9% Retail Notes accrue interest at a fixed coupon of 9.0% payable semi-annually in arrears. See "*Description of certain financing arrangements—9% Retail Bond*."

(7) Represents the $827.2 million aggregate principal amount outstanding under the Existing Senior Notes as of June 30, 2022, including capitalized interest of $177.2 million but excluding accrued interest, IFRS 9 EIR adjustment of $14.1 million and deferred finance costs of $1.3 million. Between June 30, 2022 and September 30, 2022, we used cash and cash equivalents of $34.9 million for repayments of the Existing Senior Notes and thus, as of September 30, 2022, the aggregate principal amount outstanding under the Existing Senior Notes was $792.3 million. The as adjusted column reflects redemption in full of the Existing Senior Notes in connection with the Transactions.

(8) Represents the Notes offered hereby.

(9) Capitalization is calculated as the sum of total debt and total equity.

SELECTED FINANCIAL DATA

The following tables present our selected group financial information as of and for the years ended December 31, 2019, 2020 and 2021 which has been derived from our audited group financial statements as of and for the years ended December 31, 2019, 2020 and 2021 and our summary historical consolidated financial information as of and for the six months ended June 30, 2021 and June 30, 2022, which has been derived from our Unaudited Group Interim Financial Statements as of and for the six months ended June 30, 2021 and June 30, 2022. The restated financial statements data for the year ended December 31, 2020 has been derived from the group financial statements of the Company for the year ended December 31, 2021. Our Audited Group Financial Statements as of and for the years ended December 31, 2019, 2020 and 2021 should be read in conjunction with the relevant reports of our independent auditor for such periods.

The financial information presented as of and for the twelve months ended June 30, 2022 is derived from adding the unaudited condensed consolidated interim income statement for the six months ended June 30, 2022 to the audited historical consolidated income statement for the year ended December 31, 2021 and subtracting the unaudited historical condensed income consolidated statement for the six months ended June 30, 2021, each of which have been prepared in accordance with IAS 34. The income statement for the twelve months ended June 30, 2022 has been prepared for illustrative purposes and is not necessarily representative of our results of operations for any future period or our financial condition at any future date and is not prepared in the ordinary course of our financial reporting in accordance with IFRS.

Our Audited Group Financial Statements as at and for the year ended December 31, 2019 included in this Offering Memorandum have been prepared in accordance with IFRS, as adopted by the European Union and comply with Article 4 of the EU IAS Regulation. Our Audited Group Financial Statements as at and for the year ended December 31, 2020 included in this Offering Memorandum have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and in accordance with IFRS as adopted by the European Union. Our Audited Group Financial Statements as at and for the year ended December 31, 2021 included in this Offering Memorandum have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and in accordance with U.K. adopted International Accounting Standards. Our Unaudited Group Interim Financial Statements as at and for the six months ended June 30, 2021 included in this Offering Memorandum have been prepared in accordance with Accounting Standard IAS 34. Our Unaudited Group Interim Financial Statements as at and for the six months ended June 30, 2022 included in this Offering Memorandum have been prepared in accordance with Accounting Standard IAS 34.

The financial statement data set forth in the following tables should be read in conjunction with "*Presentation of financial and other information*," "*Capitalization*," "*Use of proceeds*," "*Management's discussion and analysis of financial condition and results of operations*" and our annual financial statements and related notes. Historical results may not necessarily be indicative of results that may be expected for any future period.

Selected historical comprehensive income statement data

(in millions of $)

	For the year ended December 31,								
	2019			2020[c]			2021		
	Adjusted Business Performance[a]	Remeasurements and exceptional items[b]	Reported in year	Adjusted Business Performance[a]	Remeasurements and exceptional items[b]	Reported in year	Adjusted Business Performance[a]	Remeasurements and exceptional items[b]	Reported in year
Revenue and other operating income	1,711.8	(65.4)	1,646.5	855.1	8.8	863.9	1,320.3	(54.5)	1,265.8
Cost of sales	(1,243.6)	(0.4)	(1,243.9)	(785.5)	(13.6)	(799.1)	(900.4)	(7.2)	(907.6)
Gross profit/(loss)	**468.3**	**(65.8)**	**402.5**	**69.6**	**(4.8)**	**64.8**	**419.8**	**(61.7)**	**358.2**
Net impairment reversal/(charge) to oil and gas assets	—	(812.4)	(812.4)	—	(422.5)	(422.5)	—	39.7	39.7
General and administration expenses	(7.7)	—	(7.7)	(6.1)	—	(6.1)	(0.4)	—	(0.4)
Other income	3.4	—	3.4	18.1	138.2	156.3	31.0	162.6	193.6
Other expenses	(21.9)	(31.7)	(53.6)	(101.6)	(1.0)	(102.6)	(7.3)	(3.8)	(11.1)
Profit/(loss) from operations before tax and finance income/(costs)	**442.2**	**(909.9)**	**(467.8)**	**(20.0)**	**(290.1)**	**(310.1)**	**443.2**	**136.9**	**580.1**
Finance costs	(206.6)	(57.2)	(263.8)	(179.8)	(77.3)	(257.1)	(169.5)	(58.4)	(227.8)
Finance income	2.4	—	2.4	1.2	—	1.2	0.2	—	0.2
Profit/(loss) before tax	**238.0**	**(967.1)**	**(729.1)**	**(198.7)**	**(367.3)**	**(566.0)**	**274.0**	**78.5**	**352.4**
Income tax	(23.6)	303.5	279.8	172.5	(76.4)	96.0	(53.7)	78.2	24.5
Profit/(loss) for the year attributable to owners of the parent	**214.3**	**(663.6)**	**(449.3)**	**(26.2)**	**(443.8)**	**(469.9)**	**220.3**	**156.7**	**377.0**
Total comprehensive income for the year, attributable to owners of the parent	—	—	**(449.3)**	—	—	**(469.9)**	—	—	**377.0**

	For the six months ended June 30,			For the six months ended June 30,			For the twelve months ended June 30,		
	2021			2022			2022		
	Adjusted Business Performance[a]	Remeasurements and exceptional items[b]	Reported in year	Adjusted Business Performance[a]	Remeasurements and exceptional items[b]	Reported in year	Adjusted Business Performance[a]	Remeasurements and exceptional items[b]	Reported in year
Revenue and other operating income	518.3	(37.0)	481.3	943.5	(104.7)	838.8	1,745.5	(122.2)	1,623.3
Cost of sales	(333.3)	—	(333.3)	(585.6)	(0.5)	(586.1)	(1,152.8)	(7.7)	(1,160.5)
Gross profit/(loss)	**185.0**	**(37.0)**	**148.1**	**357.9**	**(105.2)**	**252.8**	**592.7**	**(129.8)**	**462.9**
Net impairment reversal/(charge) to oil and gas assets	—	—	—	—	10.1	10.1	—	49.8	49.8
General and administration expenses	(0.1)	—	(0.1)	(3.1)	—	(3.1)	(3.3)	—	(3.3)
Other income	4.3	27.5	31.8	62.3	4.1	66.4	89.0	139.2	228.2
Other expenses	(13.9)	—	(13.9)	(1.0)	(31.0)	(32.0)	5.6	(34.8)	(29.3)
Profit/(loss) from operations before tax and finance income/(costs)	**175.4**	**(9.5)**	**165.9**	**416.1**	**(122.0)**	**294.2**	**684.0**	**24.4**	**708.3**
Finance costs	(86.6)	(30.3)	(116.9)	(94.1)	(17.9)	(112.0)	(177.0)	(46.0)	(222.9)
Finance income	0.1	—	0.1	0.4	—	0.4	0.5	—	0.5
Profit/(loss) before tax	**88.9**	**(39.8)**	**49.1**	**322.4**	**(139.8)**	**182.6**	**507.5**	**(21.6)**	**485.9**
Income tax	19.4	(124.9)	(105.5)	(142.4)	163.4	21.0	(215.5)	366.4	151.0
Profit/(loss) for the year attributable to owners of the parent	**108.3**	**(164.7)**	**(56.4)**	**180.0**	**23.5**	**203.5**	**292.0**	**344.9**	**636.9**
Total comprehensive income for the year, attributable to owners of the parent	—	—	**(56.4)**	—	—	**203.5**	—	—	**636.9**

(a) Adjusted business performance is our reported performance adjusted to remove the effects of remeasurements and exceptional items. We have adjusted the header of this column to comply with US market practice for labeling non-IFRS measures. The Audited Financial Statements presentation is compliant with the U.K. standards set by the Financial Reporting Committee.

(b) As permitted by IAS 1 (Revised): Presentation of Financial Statements, certain items of income or expense which are material are presented separately as "Remeasurements and exceptional items." Remeasurements relate to those items which are remeasured on a periodic basis and are applied consistently year-on-year. Exceptional items include 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 better understanding of the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance. For further information on our "Remeasurements and exceptional items" is presented in the table below.

(c) The income statement for the year ended December 31, 2020 has been restated to reflect a change in presentation of rental income and the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements.*"

Remeasurements and exceptional items

	For the year ended December 31,			For the six months ended June 30,		For the twelve months ended June 30,
	2019	2020[8]	2021	2021	2022	2022
			(in millions of $)			
Revenue and other operating income[1]	(65.4)	8.8	(54.5)	(37.0)	(104.7)	(122.2)
Cost of sales[2]	(0.4)	(13.6)	(7.2)	—	(0.5)	(7.7)
Net impairment reversal/(charge) on oil and gas assets[3]	(812.4)	(422.5)	39.7	—	10.1	49.8
Other income[4]	—	138.2	162.6	27.5	4.1	139.2
Other expenses[5]	(31.7)	(1.0)	(3.8)	—	(31.0)	(34.8)
Finance costs[6]	(57.2)	(77.3)	(58.4)	(30.3)	(17.9)	(46.0)
Profit/(loss) before tax	**(967.1)**	**(367.3)**	**78.5**	**(39.8)**	**(139.8)**	**(21.6)**
Tax on items above[7]	303.5	138.8	(26.3)	14.7	55.5	14.5
Recognition/(Derecognition) of undiscounted deferred tax asset	—	(215.2)	104.5	(139.5)	107.9	351.9
Total impact of remeasurements and exceptional items on profit/(loss) for the year attributable to owners of the parent	**(663.6)**	**(443.8)**	**156.7**	**(164.6)**	**23.5**	**344.8**

(1) In the year ended December 31, 2021, unrealized losses on oil derivative contracts were $54.5 million comprised of $55.6 million of losses from commodity options and $1.1 million of gains from commodity swaps.

In the year ended December 31, 2020, unrealized gains on oil derivative contracts were $8.8 million comprised of $0.1 million of losses from commodity options and $8.9 million of gains from commodity swaps.

In the year ended December 31, 2019, unrealized losses on oil derivative contracts were $65.4 million comprised of $55.5 million of losses from commodity options, $10.0 million of losses from commodity swaps and a gain of $0.1 million in commodity futures.

In the six months ended June 30, 2022, unrealized losses on oil derivative contracts were $104.7 million comprised of $106.0 million of losses from commodity options and a $1.3 million gain from commodity swaps.

In the six months ended June 30, 2021, unrealized losses on oil derivative contracts were $37.0 million comprised of $35.8 million of losses from commodity options and $1.2 million of losses from commodity swaps.

(2) In the year ended December 31, 2021, unrealized gains on derivative contracts related to operating costs were $0.5 million comprised of $0.4 million of gains from foreign exchange contracts and $0.1 million of gains from U.K. emission allowances forward contracts. The remaining $7.7 million were related to movements in other provisions.

In the year ended December 31, 2020, unrealized losses on derivative contracts related to operating costs were $1.9 million comprised of a loss of $1.9 million in foreign exchange contracts. The remaining $11.7 million were related to movements in other provisions.

In the year ended December 31, 2019, unrealized losses on derivative contracts related to operating costs were $0.4 million comprised of $1.7 million of gains from foreign exchange contracts and $2.1 million of losses from EU emission allowances forwards contracts.

In the six months ended June 30, 2022, unrealized losses on derivative contracts related to operating costs were $0.5 million comprised of $0.4 million of losses from foreign exchange contracts and $0.1 million of losses related to UKA contracts.

In the six months ended June 30, 2021, unrealized gains on derivative contracts related to operating costs were $nil.

(3) In the year ended December 31, 2021, the impairment reversal of $39.7 million was split between net impairment reversal of $24.0 million recognized in respect of oil and gas assets and $15.7 million in respect of right-of-use assets, respectively, within the North Sea segment primarily driven by an increase in our near-term future oil price assumptions.

In the year ended December 31, 2020, the impairment charge of $422.5 million was split between impairment charges of $314.3 million recognized in respect of oil and gas assets and $108.2 million in respect of right-of-use assets, respectively, within the North Sea segment primarily due to changes in long-term oil price assumptions.

In the year ended December 31, 2019, the impairment charges of $637.5 million on our tangible oil and gas assets arose from a reduction in the long-term oil price, revisions to reserve profiles in Heather/Broom, Thistle/Deveron and the Dons fields and the anticipated cessation of production at Alma/Galia. These changes also resulted in impairment charges of $149.6 million to our goodwill and $25.4 million to our intangible assets.

In the six months ended June 30, 2022, a net impairment reversal of $10.1 million was recognized as a result of increased short-term oil price forecasts.

In the six months ended June 30, 2021, there were no impairment reversals or charges.

(4) In the year ended December 31, 2021, other income included $140.1 million relating to fair value changes in contingent consideration related to the acquisition of Magnus.

In the year ended December 31, 2020, other income included $138.2 million relating to fair value changes in contingent consideration related to the acquisition of Magnus.

In the year ended December 31, 2019 there was no other income.

In the six months ended June 30, 2022, other income included $4.1 million were related to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure.

In the six months ended June 30, 2021, other income included $27.5 million relating to the fair value remeasurement of contingent consideration related to the acquisition of Magnus.

(5) In the year ended December 31, 2021, other expenses of $3.8 million were related to expenses incurred on the repayment of the BP vendor loan.

In the year ended December 31, 2020, other expenses of $1.0 million were primarily attributable to the loss on derecognition of the assets related to the Seligi riser detachment.

Other expenses in the year ended December 31, 2019 mainly related to the provision for settlement of the historical KUFPEC claim of $15.6 million and fair value adjustment relating to the contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $15.5 million.

In the six months ended June 30, 2022, other expenses included a $31.0 million loss in relation to fair value recalculation of the Magnus contingent consideration reflecting a forecast increase in Magnus future cash flows as a result of increased short-term oil price forecast.

In the six months ended June 30, 2021, there were no remeasurements or exceptional items impacting other expenses.

(6) In the year ended December 31, 2021, finance costs reflect the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $58.4 million.

In the year ended December 31, 2020, finance costs reflect the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $77.3 million.

In the year ended December 31, 2019, finance costs reflect the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $57.2 million.

In the six months ended June 30, 2022, finance costs included $17.9 million associated with the unwinding of discount on contingent consideration on the 75% acquisition of Magnus and associated infrastructure.

In the six months ended June 30, 2021, finance costs reflect unwinding of discount on contingent consideration on the 75% acquisition of Magnus of $30.3 million.

(7) In considering the tax on exceptional items, we apply the appropriate statutory tax rate to each item to calculate the relevant tax charge on exceptional items.

In the year ended December 31, 2021, a net tax credit of $78.2 million has been recognized as exceptional, representing the recognition of undiscounted deferred tax assets of $104.5 million following our acquisition of Golden Eagle and our higher oil price assumptions, partially offset by a tax charge of $26.3 million charged on the remeasurements and exceptional items.

In the year ended December 31, 2020, a net tax charge of $76.4 million has been recognized as exceptional, representing the de-recognition of undiscounted deferred tax assets of $215.2 million in light of lower long-term oil price assumptions, partially offset by a tax credit of $138.8 million charged on the remeasurements and exceptional items.

In the year ended December 31, 2019 there was no material other tax exceptional items, with the full credit of $303.5 million relating to tax charged on the remeasurements and exceptional items and no recognition or derecognition of undiscounted deferred tax assets.

In the six months ended June 30, 2022, a net tax credit of $163.4 million has been recognized as exceptional, representing the non-cash recognition of $107.9 million of undiscounted deferred tax assets due to increased short-term oil price assumptions and the tax impact of exceptional items and remeasurements. Had the EPL been enacted in the interim period, as cash tax liability of $14.4 million would have been recognized in respect of remeasurements and exceptional items in the period between May 26, 2022 and June 30, 2022.

In the six months ended June 30, 2021, a net tax charge of $124.9 million has been recognized as exceptional, representing the tax impact of unrealized losses of $37.0 million in respect of the mark-to-market movement on commodity contracts, a $27.5 million gain in relation to the fair value recalculation of the Magnus contingent consideration, finance costs of $30.3 million relating to the unwinding of contingent consideration from the acquisition of Magnus and interest charges on the vendor loan and a non-cash derecognition of undiscounted deferred tax assets of $139.5 million.

(8) The income statement for the year ended December 31, 2020 has been restated to reflect a change in presentation of rental income and the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements.*"

Selected historical balance sheet data

	As of December 31,			As of June 30,
	2019	2020[1]	2021	2022
	(in millions of $)			
Assets				
Non-current assets				
Property, plant and equipment	3,450.9	2,633.9	2,822.0	2,672.9
Goodwill	134.4	134.4	134.4	134.4
Intangible assets	27.6	27.5	47.7	40.2
Deferred tax assets	576.0	659.8	703.0	735.0
Other financial assets	0.0	—	—	—
	4,188.9	**3,455.7**	**3,707.1**	**3,582.5**
Current assets				
Inventories	78.6	59.8	73.0	90.1
Trade and other receivables	279.5	118.7	296.1	311.4
Current tax receivable	—	5.6	2.4	2.1
Cash and cash equivalents	220.5	222.8	286.7	369.7
Other financial assets	9.1	—	0.5	1.2
	587.7	**406.9**	**658.6**	**774.5**
TOTAL ASSETS	**4,776.6**	**3,862.6**	**4,365.6**	**4,357.0**
EQUITY AND LIABILITIES				
Equity				
Share capital and premium	345.4	345.4	392.2	392.2
Merger reserve	662.9	—	—	—
Share-based payment reserve	(1.1)	1.0	6.8	8.9
Retained earnings	(448.1)	(255.2)	121.8	325.3
TOTAL EQUITY	**559.1**	**91.2**	**520.8**	**726.4**
Non-current liabilities				
Borrowings	493.4	37.9	191.1	50.0
Bonds	966.2	1,045.0	1,081.6	1,125.1
Leases liability	614.8	548.4	442.5	403.2
Contingent consideration	545.6	448.4	380.3	402.4
Provisions	706.2	741.5	754.3	730.8
Deferred tax liabilities	20.9	6.4	3.4	2.9
	3,347.1	**2,827.5**	**2,853.2**	**2,714.4**
Current liabilities				
Borrowings	165.6	414.4	210.5	65.7
Leases liability	101.3	99.4	128.3	136.9
Contingent consideration	111.7	73.9	30.5	54.7
Provisions	56.8	99.0	140.7	82.8
Trade and other payables	419.9	255.2	420.5	400.3
Other financial liabilities	11.1	2.0	55.2	161.8
Current tax payable	4.1	—	6.0	14.0
	870.4	**943.9**	**991.7**	**916.2**
TOTAL LIABILITIES	**4,217.5**	**3,771.4**	**3,844.9**	**3,630.6**
TOTAL EQUITY AND LIABILITIES	**4,776.6**	**3,862.6**	**4,365.6**	**4,357.0**

(1) The balance sheet as of December 31, 2020 has been restated to reflect the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements*."

Summary historical cash flow statement data

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020(1)	2021	2021	2022
	(in millions of $)				
CASH FLOW FROM OPERATING ACTIVITIES					
Cash generated from operations	994.6	567.2	756.9	287.9	522.7
Cash received from insurance	—	—	0.7	—	8.3
Cash received/(paid) on sale/(purchase) of financial instruments	4.9	6.2	(0.3)	—	(0.1)
Decommissioning spend	(11.1)	(41.6)	(65.8)	(38.7)	(28.2)
Income taxes paid	(26.2)	(10.4)	(17.4)	(2.3)	(4.2)
Net cash flows from/(used in) operating activities	**962.3**	**521.4**	**674.1**	**246.9**	**498.4**
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(234.2)	(131.4)	(43.7)	(15.0)	(52.1)
Purchase of intangible oil and gas assets	(3.2)	—	(8.1)	(0.9)	(2.6)
Purchase of other intangible assets	—	—	(10.1)	—	—
Net cash received on termination of Tanjong Baram risk service contract	—	51.1	—	—	—
Repayment of Magnus contingent consideration — Profit share	(21.6)	(41.1)	(1.0)	(1.0)	—
Acquisitions	—	—	(258.6)	(3.0)	—
Interest received	1.2	0.8	0.3	0.1	0.3
Net cash flows (used in)/from investing activities	**(257.8)**	**(120.6)**	**(321.2)**	**(19.8)**	**(54.4)**
FINANCING ACTIVITIES					
Net proceeds of share issue	—	—	47.8	—	—
Proceeds from loans and borrowings	—	—	125.0	—	67.4
Repayment of loans and borrowings	(394.0)	(210.7)	(184.3)	(88.2)	(300.1)
Repayment of Magnus contingent consideration — Vendor loan	(52.7)	(20.7)	(73.7)	(11.4)	—
Shares purchased by Employee Benefit Trust	—	(1.2)	(0.6)	—	—
Repayment of obligations under leases	(135.1)	(123.0)	(136.7)	(57.3)	(59.3)
Interests paid	(146.0)	(43.0)	(63.0)	(15.8)	(52.5)
Other finance costs paid	(2.1)	(2.5)	—	(1.2)	—
Net cash flows from/(used in) financing activities	**(730.0)**	**(401.0)**	**(285.5)**	**(173.8)**	**(344.4)**
Net (decrease)/increase in cash and cash equivalents	**(25.6)**	**(0.2)**	**67.4**	**53.3**	**99.5**
Net foreign exchange on cash and cash equivalents	6.6	2.6	(3.6)	(1.1)	(16.4)
Cash and cash equivalents at beginning of period	237.2	220.5	222.8	222.8	286.7
CASH AND CASH EQUIVALENTS AS OF END OF PERIOD	**218.2**	**222.8**	**286.7**	**275.0**	**369.7**
Reconciliation of cash and cash equivalents					
Total cash at bank and in hand	218.2	221.2	277.0	244.3	360.2
Restricted cash(2)	2.3	1.7	9.7	30.7	9.5
Cash and cash equivalents per balance sheet	**220.5**	**222.8**	**286.7**	**275.0**	**369.7**

(1) The cash flow statement as of December 31, 2020 has been restated to reflect a change in presentation of our statement of cash flows to reconcile to cash and cash equivalents per the balance sheet. See "*Presentation of financial and other information—Restatements—Presentation of our statement of cash flows.*"

(2) As at June 30, 2022, restricted cash includes $7.8 million on deposit relating to bank guarantees for our Malaysian assets and $1.7 million related to cash collateralized letters of credit.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following review should be read in conjunction with the sections entitled "Presentation of financial and other information" and "Selected financial data" as well as with our Audited Group Financial Statements and the related notes thereto included elsewhere in this Offering Memorandum. The 1P and 2P Reserves data presented in this section have been audited at our request by GaffneyCline in accordance with PRMS guidelines and definitions. Estimated 1P and 2P Reserves presented herein may differ from estimates made in accordance with guidelines and definitions used by other companies in the industry or by the SEC. See "Presentation of financial and other information." Unless otherwise indicated, all production figures are presented on a net to our working interest basis. Where gross amounts are indicated, they are presented on a total basis—i.e., the actual interest of the relevant license holder in the relevant fields and license areas without deduction for the economic interest of our commercial partners, taxes or royalty interests or otherwise. Our legal interest and effective working interest in the relevant fields and license areas are separately disclosed. See "Our Business—Material agreements relating to our assets" for a more detailed discussion of the terms of the agreements governing our interests. The following discussion includes forward-looking statements which, although based on assumptions that we consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. For a discussion of some of those risks and uncertainties please refer to the sections entitled "Forward-looking statements" and "Risk factors."

Overview

We are a significant independent U.K. oil and gas producer operating in the U.K. North Sea and Malaysia. As of June 30, 2022, we had interests in 19 U.K. production licenses, 15 of which we operate, covering 26 blocks or part blocks in the UKCS. In January 2021, we acquired a 40.8% operating interest in the Bressay oil field; in July 2021, we acquired a 100.0% working interest in the P1078 license containing the Bentley heavy oil discovery; and in October 2021, we completed the acquisition of a 26.7% non-operated working interest in the Golden Eagle Asset, all in the U.K. North Sea. We also have interests in two licenses in Malaysia, both of which we operate.

Our average daily production on a working interest basis for the six months ended June 30, 2022 was 49,726 boepd, which included an average daily production on a working interest basis of 7,060 boepd from the Golden Eagle Asset. Since our inception, we have increased our net 1P and net 2P Reserves to 141 MMboe and to 194 MMboe (including the 1P and 2P Reserves from the Golden Eagle Asset), respectively, as of December 31, 2021 from 36 MMboe and 81 MMboe, respectively, as of January 1, 2010, representing a compound annual growth rate for 2P Reserves of approximately 7.5% per annum and representing a reserves replacement ratio of approximately 1.7x. During the period from January 1, 2010 to December 31, 2021, we added net 2P Reserves of 273 MMboe and our production was 160 MMboe. Approximately 90% of our 2P Reserves are located in fields operated by us as well as located in fields in the U.K. North Sea. As of December 31, 2021, our assets had a reserve life of 12 years and a resource life of 25 years, compared to an estimated average reserve life of 10 years and an estimated average resource life of 7 years for selected peers.

Our producing assets generated revenue and other operating income, gross profit/(loss) and Adjusted EBITDA of $1,623.3 million, $462.9 million and $933.7 million, respectively, in the twelve months ended June 30, 2022. In the six months ended June 30, 2022, our average unit operating costs were $22.7/boe.

We were founded in 2010 through a combination of Petrofac Energy Developments Limited ("**PEDL**") and certain assets of Lundin Petroleum AB ("**Lundin**"). We purchased PEDL and the UKCS assets of Lundin in exchange for stock. Following our initial public offering in April 2010, our shares are listed and trade on both the London Stock Exchange and the NASDAQ OMX Stockholm. As of September 8, 2022, our market capitalization was approximately $678.0 million based on the Bloomberg Composite Rate (London) pounds sterling/US dollar exchange rate of $1.16 per £1.00. In 2014, we diversified our geographical footprint through acquiring initial production licenses in Malaysia.

We believe that our operational and commercial capabilities and experienced technical staff and management have allowed us to grow production, Reserves and Resources since 2010 profitably. We further believe that in the UKCS, Malaysia, and potentially other geographic regions we have, and will continue to have, substantial opportunities for acquisitions and development through low-cost, near-field drilling and subsea tie-back projects, while maintaining a focus on the health, safety and environmental impacts of our operations. Most of our existing assets are located in the UKCS in the North Sea. We also have interests in licenses in

Malaysia. See "*Risk factors— Risks relating to our business—All of our production comes from a small number of offshore assets in the UKCS and Malaysia, making us vulnerable to risks associated with having significant production in two countries and only a small number of assets*."

One of our top priorities is to achieve and maintain high health, safety and environmental performance. We believe that we have robust management systems, a culture of positive engagement and a commitment to continuous improvement. We are committed to respecting the people and environments that our business may affect, and we aim to operate our business to achieve safe results, with no harm to people or the environment. To achieve this, we aim to manage our business in compliance with legislation and industry standards, maintain high-quality systems and processes and seek to maintain safe and healthy workplaces. For more information on our health, safety, environment and assurance policies, see "*Our business—Health, safety, environment and assurance*."

UKCS

The U.K. North Sea business consists of three directorates:

U.K. Upstream*: Kraken, Magnus, Golden Eagle, Greater Kittiwake Area, Scolty/Crathes, Alba, Bressay and Bentley*

The U.K. Upstream producing assets are characterized by their high production and operating efficiency. Our strategy is focused on reservoir management and resource development. In the six months ended June 30, 2022, daily average net production in the U.K. Upstream directorate was 43,422 Boepd, representing 87.3% of our total daily average net production for that period.

Infrastructure and New Energy*: Sullom Voe Terminal (*"**SVT**"*) and pipelines*

The Infrastructure and New Energy business remains focused on the delivery of safe and reliable operations while progressing renewable energy and decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen, by repurposing the existing infrastructure at SVT and connected offshore infrastructure. Having secured exclusivity from the Shetland Islands Council to progress new energy opportunities at SVT, we believe we are well placed to deliver on our new energy ambitions in cooperation with our potential strategic delivery partners and are currently exploring strategic operational and financial partnerships.

U.K. Decommissioning*: Heather/Broom, Thistle/Deveron, Alma/Galia and the Dons*

The U.K. Decommissioning operations manage end of field life decommissioning programs for assets that have already, or are about to cease production.

Malaysia

We also have producing assets located in Malaysia, PM8/Seligi and a non-producing interest in Block PM409, where we work to continue to better understand and ultimately rank the prospects in the block in order to identify suitable drilling opportunities with the intention of future development. In the six months ended June 30, 2022, daily average net production in Malaysia was 6,304 boepd, representing 12.7% of our total daily average net production for that period.

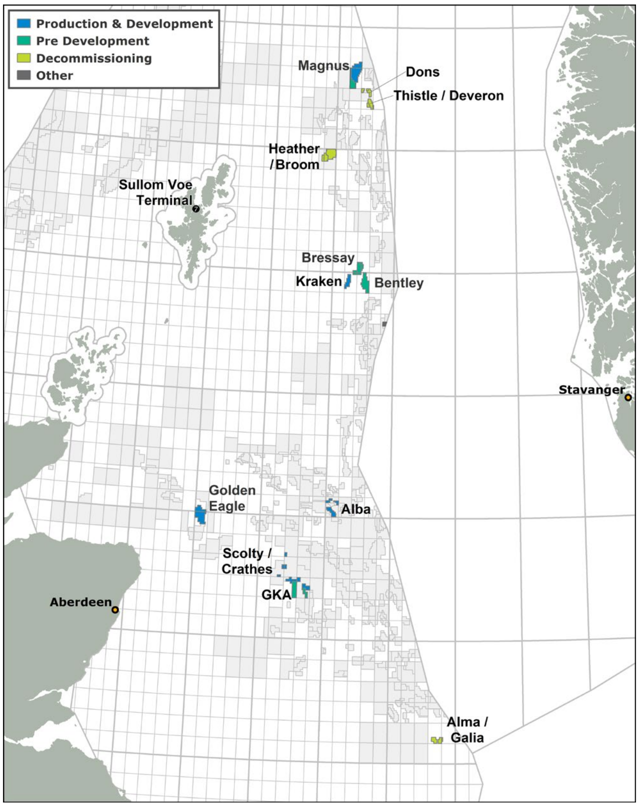
Working interest in producing assets

We typically seek to hold a significant working interest in our producing assets and developments, with 100.0% at Magnus, 70.5% at Kraken, 50.0% at GKA, 50.0% at Scolty/Crathes, 40.8% at Bressay, 26.7% at Golden Eagle and 100.0% at Bentley. In Malaysia, we hold a 50.0% working interest in PM8/Seligi and an 85.0% working interest in Block PM409.

Through ownership, holding a significant working interest and active participation rights, we are better able to shape the development plan of an asset and influence the timing and method of the extraction of resources than we would be able to if we were passive partners in our fields. As of June 30, 2022, we had ownership interests in 19 producing licenses, 15 of which were operated and 4 of which were partner-operated. In the six months ended June 30, 2022, 84.7% of our production was from operated assets while 15.3% was from partner-operated assets. We thus have a significant degree of control over the timing and magnitude of operating and capital expenditures for most of our assets. We have the right and obligation under each joint operating agreement to which each asset is a party to take delivery of our share of production from each field for onward sale to third parties of our choice. Furthermore, in relation to crude oil, each field temporarily stores production either at the field (such as onboard an FPSO) or at a terminal (such as the SVT). This gives each field owner the ability to accumulate a marketable volume of cargo, which is firstly allocated in full to the field owner with the highest proportionate share of the total stored volume at the time a full cargo accumulates in the first instance. By mutual agreement, field owners may pool their production under a joint operating agreement in order to share in cargoes. We have full discretion over the marketing of our attributable volumes across our portfolio and, in relation to assets in which we hold a minority, non-operated stake such as Alba and the Golden Eagle Asset, we market our attributable volumes independently of our partners in each field. We market our attributable volumes independently from our field partners to enable us to best leverage our proprietary trading capabilities and substantial industry know-how.

We believe that our existing assets with the highest remaining production potential are Kraken, Magnus, Golden Eagle and PM8/Seligi. We are also the operator of three of these assets, with the exception of the Golden Eagle Asset. There are also material Reserves and Contingent Resources within Kraken, Magnus and PM8/Seligi assets that we believe can be accessed through short-cycle low-cost drilling and subsea tie-back projects. The 2021 acquisitions of approximately 115 MMbbls of net 2C Resources associated with our operating interest in Bressay and 131 MMbbls of net 2C Resources associated with our operating interest in Bentley provide significant long-term, low-risk production opportunities that have similarities to our Kraken field. Kraken, Magnus, other U.K. fields and fields located in Malaysia have 33 MMboe, 34 MMboe, 3 MMboe and 86 MMboe of net 2C Resources, respectively.

The following map sets forth the locations of our assets in the UKCS.



The following table sets forth the net daily average production on a working interest basis for each of our producing UKCS operations and Malaysian operations for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and June 30, 2022:

Region	Working interest	Net daily average production (boepd) For the year ended December 31, 2019	2020	2021	For the six months ended June 30, 2021	2022
U.K. Upstream	—	**49,083**	**50,334**	**39,220**	**41,041**	**43,422**
Kraken	70.5	25,172	26,450	21,964	23,690	19,527
Magnus	100.0	18,267	17,416	11,870	13,847	12,754
Golden Eagle[(1)]	26.7	—	—	1,701	—	7,060
GKA[(2)]	50.0	1,961	1,257	485	229	1,168
Scolty/Crathes	50.0	2,848	4,561	2,610	2,678	2,395
Alba	8.0	835	650	590	597	518
Bentley	100.0	—	—	—	—	—
Bressay	40.8	—	—	—	—	—
U.K. Decommissioning		**10,870**	**2,346**	**167**	**337**	**—**
Heather/Broom[(3)]	—	1,855	—	—	—	—
Thistle/Deveron[(3)]	—	4,111	—	—	—	—
Alma/Galia[(4)]	—	1,900	714	—	—	—
The Dons[(5)]	—	3,005	1,632	167	337	—
Malaysia		**8,653**	**6,436**	**5,028**	**4,809**	**6,304**
PM8/Seligi	50.0	8,579	6,436	5,028	4,809	6,304
Tanjong Baram[(6)]	70.0	74	—	—	—	—
Total		**68,606**	**59,116**	**44,415**	**46,187**	**49,726**

Notes:

(1) For the year ended December 31, 2021, the Golden Eagle net daily average production reflects the contribution from the date we completed the acquisition, October 22, 2021, to December 31, 2021, averaged over the 12 months to the end of December.

(2) GKA production is split across four fields, Kitiwake (50.0% working interest), Mallard (50.0% working interest) and Grouse and Gadwall (50.0% working interest).

(3) Production has been shut since October 2019 with formal cessation of production in the second quarter of 2020.

(4) Ceased production in June 2020.

(5) Ceased production in March 2021.

(6) Following two consecutive quarters of allocated revenue being below operating expenditures, the Tanjong Baram field was deemed uneconomic and we issued a termination notice under the terms of the Tanjong Baram Small Field Risk Service Contract. The Tanjong Baram Small Field Risk Service Contract was terminated on March 3, 2020.

Reserves & contingent resources

The following table sets forth the 1P Reserves, 2P Reserves and 2C Resources as of the years ended December 31, 2019, 2020 and 2021.

	As of December 31,		
	2019	2020(1)	2021(2)
1P Reserves			
Oil (MMbbl)	133	115	133
Gas (Bscf)(3)	44	49	50
Total 1P Reserves (MMboe)	**140**	**123**	**141**
2P Reserves			
Oil (MMbbl)	201	178	182
Gas (Bscf)(4)	68	64	69
Total 2P Reserves (MMboe)	**213**	**189**	**194**
2C Resources			
Oil (MMbbl)	134	238	359
Gas (Bscf)	237	249	262
Total 2C Resources (MMboe)	**173**	**279**	**402**

(1) For the year ended December 31, 2020, 2C Resources includes 115 MMbbls associated with the completion of the Bressay acquisition in January 2021.

(2) For the year ended December 31, 2021, 1P Reserves, 2P Reserves and 2C Resources include the net oil and gas reserves associated with the Golden Eagle acquisition which we closed on October 22, 2021.

(3) For the years ended December 31, 2019, 2020 and 2021, 1P gas reserves included 34.2 Bscf used for fuel and 10.1 Bscf used for sales, 32.8 Bscf used for fuel and 16.0 Bscf used for sales and 40.2 Bscf used for fuel and 9.7 Bscf used for sales, respectively.

(4) For the years ended December 31, 2019, 2020 and 2021, 2P gas reserves included 41.5 Bscf used for fuel and 26.9 Bscf used for sales, 38.6 Bscf used for fuel and 25.5 Bscf used for sales and 47.8 Bscf used for fuel and 21.5 Bscf used for sales, respectively.

Significant factors affecting results of operations

Price of oil

We are exposed to the impact of changes in Dated Brent crude oil prices. Changes in oil prices can impact the levels of our reserves and, therefore, depletion charges, as well as revenues, which in turn would impact our profits and cash flow. Low oil prices, as experienced in 2020, typically result in significant reductions in capital expenditure budgets, cancellation or deferral of projects and reductions in discretionary expenditures.

Crude oil prices have historically been volatile, dependent upon the balance between supply and demand and particularly sensitive to OPEC production levels and, in recent years, the rapid increase in US shale oil output. Global oil markets continued their strong recovery to pre-COVID-19 levels for most of the first half of 2022, although there are signs of slowing growth in the world economy and oil demand. Global output decreased in the second quarter of 2022 as a result of downturns in China and Russia, while US consumer spending did not meet expectations. Crude oil spot prices declined significantly in July, following two consecutive months of sharp rises. The international spot benchmark "North Sea Dated" dropped nearly $11/bbl compared to the prior month. Oil prices also came under pressure as a result of a sharp decrease in refining margins, including margins for gasoline, in the major hubs. As of August 31, 2022, Dated Brent crude oil was $95.64/bbl.

Our oil sales for our UKCS assets (excluding Kraken) are primarily priced based on the Platts Dated Brent crude oil benchmark. Differentials to the benchmark price are negotiated with customers driven by market conditions. Prices for our Kraken oil sales are priced against the "very low sulphur (0.5% sulphur) fuel oil" ("**VLSFO**") market, with Kraken oil currently being sold as a key component of IMO 2020 compliant low sulphur fuel oil in the shipping fuel market. Prices for our Malaysian oil sales are set by the Malaysian OSP, which is generally a premium to the Platts Dated Brent benchmark. A Tapis differential is then applied to the Malaysian OSP and further differentials are negotiated with customers.

The average realized price for our oil sales (excluding hedging) increased by approximately 64.9% to $111.0/boe for the six months ended June 30, 2022 from $67.3/boe for the six months ended June 30, 2021. The average realized price for our oil sales (excluding hedging) increased by 75.5% to $73.0/boe for the year ended December 31, 2021 from $41.60/boe for the year ended December 31, 2020. The average realized price for our oil sales (excluding hedging) decreased by 35.2% to $41.60/boe for the year ended December 31, 2020 from $64.20/boe for the year ended December 31, 2019.

The average Brent ICE quoted oil price increased by 60.9% to $104.94/bbl for the six months ended June 30, 2022 from $65.23/bbl for the year ended June 30, 2021. The average Brent ICE quoted oil price increased by 64.2% to $70.95/bbl for the year ended December 31, 2021 from $43.21/bbl for the year ended December 31, 2020. The average Brent ICE quoted oil price decreased by 32.7% to $43.21/bbl for the year ended December 31, 2020 from $64.16/bbl for the year ended December 31, 2019.

The following table sets forth information on Brent ICE quoted oil prices for the years ended December 31, 2019, 2020 and 2021, the six months ended June 30, 2021 and 2022 and the twelve months ended June 30, 2022.

	For the year ended December 31,			**For the six months ended June 30,**		**For the twelve months ended June 30,**
	2019	**2020**	**2021**	**2021**	**2022**	**2022**
				(in $/bbl)		
Average price for the period	64.16	43.21	70.95	65.23	104.94	90.47
Highest price for the period	74.57	68.91	86.40	76.18	127.98	127.98
Lowest price for the period	54.91	19.33	51.09	51.09	78.98	65.18

Source: International Commodities Exchange

Our hedging policy is to attempt to manage the impact of oil prices to protect against volatility and to ensure the availability of cash flow for servicing of debt obligations and investment in capital programs that drive business growth. As part of this strategy, we have entered into commodity hedging contracts. As of June 30, 2022, we have hedged a total of approximately 3.4 MMbbls and approximately 3.5 MMbbls for the six months ended December 31, 2022 and June 30, 2023, respectively, with an average floor price of approximately $60/bbl and approximately $57/bbl, respectively, and an average ceiling price of approximately $79/bbl and $77/bbl, respectively. As further mitigation, we will continue to pursue hedging at the appropriate time and price, in line with our established policy.

Substantially all of our reserves are assessed using a commerciality threshold and are therefore impacted by changes in oil prices. In particular, decreases to oil prices could lead to reduction in the economic life of a field, which would, in turn, lead to a decrease in reserves. See "*—Reserves*." For example, following safety-related shutdowns at the Heather and Thistle facilities in late 2019, we announced in March 2020 that we would not restart production from the Heather, Broom, Thistle or Deveron fields. In June 2020, we also decided to decommission the Dons asset. These decisions follow our assessment that these fields had reached their "economic limit."

Production volumes

In addition to oil prices, production volumes are a primary revenue driver. Our production levels also affect the level of reserves and depletion charges. The volume of our oil reserves and resources and production volumes may be lower than estimated or expected. See "*Risk factors—Risks relating to the oil and gas industry**—**The levels of our 1P and 2P Reserves and Contingent Resources, their quality and production volumes may be lower than estimated or expected***."

Based on our anticipated production, volumes are nominated for lifting approximately two months in advance. Buyers of our crude oil are invoiced for the volume loaded on tankers as measured by an independent inspector and/or the fiscal meter. Volumes lifted and sold out of the terminals will normally be lower than those fiscally measured as being produced on our platforms, reflecting "shrinkage." Shrinkage may occur from three potential sources – process fuel, terminal flaring and value adjustment. We are required to contribute fuel necessary to process the hydrocarbons at the Kinneil Oil Terminal. There is also flaring at the terminal to which all pipeline entrants are required to contribute. Oil from Magnus is exported through the Ninian pipeline. The SVT uses commingled crude (Brent and Ninian), which results in a "blend" oil price being calculated. Similarly, Greater Kittiwake Area, Scolty and Crathes flow into the Forties Pipeline System and are redelivered as export Forties Crude oil at Hound Point near Edinburgh. Furthermore, production from the Golden Eagle field is delivered by pipeline to the Flotta Terminal in the Orkney Islands where it is blended into Flotta Gold export crude oil. In each case, a value adjustment is then calculated based on the relative quality of our crude against the blend as a whole and this normally results in a further element of shrinkage. For the period from January 1, 2019 to June 30, 2022, our shrinkage factor has been less than 2% of produced volumes for total gross production across all of our assets. The resulting invoice volume after deduction of shrinkage, entitlement and over/underlift as applicable to each producing asset is our sales volume.

Our production on a working interest basis increased by 7.7% to 49,726 boepd for the six months ended June 30, 2022 from 46,187 boepd for the six months ended June 30, 2021 primarily driven by the addition of Golden Eagle partially offset by lower production at Magnus and Kraken.

Our production on a working interest basis decreased by 24.9% to 44,415 boepd for the year ended December 31, 2021 from 59,116 boepd for the year ended December 31, 2020 primarily driven by well integrity and topside downtime at Magnus, outages due to planned maintenance as well as a subsea power umbilical failure at the Greater Kittiwake Area and natural declines across the U.K. Upstream assets. This was partially offset by the contribution from Golden Eagle.

Our production on a working interest basis decreased by 13.8% to 59,116 boepd for the year ended December 31, 2020 from 68,606 boepd for the year ended December 31, 2019 primarily reflecting Thistle, Heather and Alma/Galia moving to cessation of production, the impact of the detached riser at the Seligi Alpha platform and lower production at the Dons caused by a lack of gas lift no longer available from Thistle as well as underlying natural declines, which were partially offset by a strong performance from Kraken.

The following table sets forth information on our oil production on a net working interest basis and sales volumes for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
			(*boepd*)		
Total average daily production for the period....................	68,606	59,116	44,415	46,187	49,726
Total average daily sales volume for the period[(1)]	77,362	60,736	50,513	47,527	51,281

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

Reserves

We estimate our 1P and 2P reserves, which are reflected in our financial statements, using standard recognized evaluation techniques. This estimate is reviewed internally at least annually and is also audited annually by GaffneyCline. We estimate future development costs, taking into account the level of development required to produce the reserves we have elected to develop. The amount of development costs in turn influences the economic recoverability of the resources and, therefore, what proportion of resources are recognized as reserves.

Separately, the depletion of oil assets charged to our income statement under cost of sales is dependent on the estimate of our oil reserves. An increase in estimated reserves will cause a reduction in the charge to our annual income statement because a larger base exists on which to depreciate the asset. Conversely, a decrease in estimated reserves will cause an increase in the charge to our annual income statement. The estimate of oil reserves also underpins the net present value of a field used for impairment calculations, and in significant cases a reduction to the reserves estimate can lead to an impairment charge. These impairment charges would not impact our cash flow nor our U.K. tax allowances.

Development and production success and impairment

We face inherent risks in connection with our development and production activities. These risks include the difference between estimated and actual reserves, our cost efficiency in development, timing of production activities and our level of production. We review our development and production projects at least semi-annually for indicators of impairment. Where such an indicator does exist, we compare the net present value of the asset (based on discounted cash flows) with the carrying value on our balance sheet. If the net present value is lower than the carrying value, we record any impairment to the "Net impairment reversal/(charge) to oil and gas assets" line of our income statement.

Following the completion of the original Kraken field development plan in March 2019, our exposure to development risks has been materially reduced. Development of our existing reserves and resources is anticipated to be primarily through short-cycle drilling and subsea tie-back projects. However, following the cessation of production at the Alma/Galia, Heather/Broom and Thistle/Deveron, the commencement of cessation of production activities at the Dons in March 2021 and the termination of the Tanjong Baram risk service contract, we are more reliant on fewer sources of production and, therefore, our exposure to risks in our production activities has increased.

In the six months ended June 30, 2022, the net impairment reversal to our oil and gas assets was $10.1 million compared to $nil in the six months ended June 30, 2021, primarily related to increased short-term oil price forecasts. In the year ended December 31, 2021, the net impairment reversal to our oil and gas assets was $39.7 million. This net impairment reversal primarily related to changes in our near-term future oil price assumptions during the period. In the year ended December 31, 2020, the impairments to our oil and gas assets were $422.5 million. This charge primarily related to changes in our oil price assumptions during the period, with changes to the long-term oil price reducing from $70/bbl to $60/bbl. In the year ended December 31, 2019, the impairments to our oil and gas assets were $637.5 million. This charge primarily related to changes to the long-term oil price reducing from $75/bbl to $70/bbl, revisions to the production profiles of Heather/Broom, Thistle/Deveron and the Dons, and the anticipated cessation of production at Alma/Galia. The Heather/Broom, Thistle/Deveron and the Dons fields were fully impaired as a result of the impairment assessment conditions as of December 31, 2019.

Acquisitions and disposals

Our results are affected by acquisitions and disposals of assets that take place during the period, although the extent of the impact largely depends on the mix of assets acquired or sold. If we elect to divest an asset, it could impact several line items in our income statement depending, in part, on the stage of the asset's life in which disposal occurs. Any acquisition of or sale of interests in producing assets will affect our production volumes, revenues and operating costs. Acquisitions and disposals also affect our liquidity and cash position in the relevant period to the extent the purchase price is paid in cash. We continually evaluate potential acquisitions and disposals and the timing of any such transaction is uncertain.

Acquisitions and disposals during the periods presented included, among others, those set forth below:

- 2019: Awarded the Block PM409 PSC, under which we operate the block with a working interest of 85.0%, with PETRONAS Carigali Sdn. Bhd. owning the remaining 15.0%.
- January 2021: Acquired a 40.81% working interest in the Bressay field.
- July 2021: Acquired a 100.0% interest in the Bentley discovery.
- October 2021: Completed the acquisition of Suncor's entire 26.7% non-operated working interest in the Golden Eagle Area Development, comprising the producing Golden Eagle, Peregrine and Solitaire fields.

See "*Our business—Material agreements relating to our assets*." As of June 30, 2022, we had no assets held for sale.

Underlying operating costs

Fixed

Fixed operating costs are substantially independent from production levels and therefore do not automatically increase (or decrease) with an increase (or decrease) of our level of production. Fixed operating costs include routine and non-routine maintenance costs, certain labor costs and power costs. Certain regular maintenance programs also result in the temporary shut-in of production. An increase in fixed operating costs will result in an increase in underlying operating costs per barrel due to higher costs with no associated increase in production.

Variable

The variable element of operating costs will increase (or decrease) with the level of production. An increase (or decrease) in production will result in an increase (or decrease) in underlying variable operating costs. The primary variable operating costs that affect our results include the costs associated with the use of infrastructure (including third-party infrastructure such as pipelines and terminals), consumable well supplies and fuel. We pay tariffs for use of third-party infrastructure based on our proportionate use of the infrastructure. Tariffs are set in part based on the infrastructure operator's total expenses.

Oil produced at Kraken is loaded from the Armada Kraken FPSO onto shuttle tankers and then delivered directly to buyers in Northwest Europe or transferred to other conventional oil tankers for delivery into the United States, the Mediterranean and/or the Asia.

The greatest portion of our transportation and infrastructure costs arise through tariffs charged for the use of the SVT, through which oil from Magnus is transported and marketed. These charges are based on a cost share model.

Oil produced at Golden Eagle is processed on the platform and then transported through the Golden Eagle pipeline to the Claymore line, where it is then routed to the Flotta system and processed into stabilized Flotta Gold blend at the Flotta Terminal. Gas is currently exported from the platform to the Ettrick "T" piece and pipeline into the SAGE system for processing and sales at St Fergus. However, gas exports are due to finish in 2022 as from then on all available gas will be utilized for fuel.

With respect to production from the Greater Kittiwake Area and Scolty/Crathes, we hold an equity interest in an offshore platform at Kittiwake and a 100% interest in a pipeline linking Kittiwake to the Forties Unity pipeline. Fields in the Greater Kittiwake area and Scolty/Crathes are tied via subsea infrastructure to the offshore platform at Kittiwake. Oil from the platform at Kittiwake is transported via pipeline to the Forties Unity platform where it is then transported to shore at Cruden Bay through the Forties Unity pipeline system. The oil then continues through the pipeline to Hound Point, Scotland, where it is loaded on tankers, and raw gas and natural gas liquids are taken to Grangemouth, Scotland for further processing.

Oil from Alba, where we hold a minority interest, is also transported by shuttle tanker from the Alba Northern platform to onshore terminals.

Production from PM8/Seligi is transported via the Tapis platform (operated by ExxonMobil) to the Terengganu Crude Oil Terminal (operated by PETRONAS Carigali Sdn. Bhd.) for processing and sale.

Derivative financial instruments

Our results are affected by commodity and foreign currency hedging. Our commodity hedging 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. Under the terms of our RBL Facility, we are required to hedge (i) a minimum of 45% of volumes of net entitlement production expected to be produced in the 12 months following the relevant quarter date and (ii) from the date 12 months after the relevant quarter date to the date 24 months after that date:

- if 75% or more of the facility is utilized on the relevant quarter date, 35% of volumes of net entitlement production expected to be produced;
- if less than 75% but 50% or more of the facility is utilized on the relevant quarter date, 25% of volumes of net entitlement production expected to be produced; and
- if less than 50% of the facility is utilized on the relevant quarter date, 15% of volumes of net entitlement production expected to be produced.

As of June 30, 2022, we have hedged a total of approximately 3.4 MMbbls and approximately 3.5 MMbbls for the six months ended December 31, 2022 and June 30, 2023, respectively, with an average floor price of approximately $60/bbl and approximately $57/bbl, respectively, and an average ceiling price of approximately $79/bbl and $77/bbl, respectively.

Our foreign currency hedging policy allows for up to 70% of non-U.S. dollar denominated annual capital budget and operating expenditure to be hedged, although we may hedge up to 100% of non-US dollar capital expenditure in relation to specific contracted capital expenditure projects. As of the Issue Date, we have hedged our exposures to pounds sterling in line with this policy.

We hold 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. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Financial instruments are carried in our balance sheet at fair value with net changes in fair value recognized in our income statement. Unrealized mark-to-market changes in the remeasurements of open derivative contracts at each period is recognized within remeasurements.

Write-offs and impairment

For the year ended December 31, 2019, we either wrote off or impaired costs totaling $25.4 million in relation to our intangible exploration and evaluation assets following unsuccessful exploration and evaluation activities and for the years ended December 31, 2020 and 2021, no charges were made. The extent of our write-offs and impairments in a period relates to our success in evaluating assets prior to receipt of a license. Such evaluations have become less significant to our operations because of our decreased exploration and evaluation activities.

Write-offs and impairments of intangible exploration and evaluation assets are expensed through the exploration and evaluation expenses line of our income statement. We account for such write-offs and impairments using the successful efforts method of accounting. In line with the successful efforts method of accounting, all license acquisition, exploration and evaluation costs are initially capitalized as intangible assets in cost centers by field or exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalized insofar as they relate to specific exploration activities. Pre-license costs and general exploration costs not specific to any particular license or prospect are expensed as incurred. If prospects are deemed to be impaired ("unsuccessful") on completion of the evaluation, the associated costs are charged to the income statement. If the field is determined to be commercially viable, the attributable costs are transferred to property, plant and equipment in single field cost centers. These costs are then depreciated on a unit of production basis. All field development costs are capitalized as property, plant and equipment. Property, plant and equipment related to production activities are amortized in accordance with our depletion and amortization accounting policy. See "—*Critical accounting estimates and judgments*."

Interest rates

Our exposure to the risk of changes in market interest rates relates primarily to our borrowings under the RBL Facility and the SVT Working Capital Facility, which have a SOFR and SONIA linked interest rate, respectively. See "—*Financing—Debt financing*" and "*Description of certain financing arrangements*."

In the year ended December 31, 2021, the RBL Facility interest accrued at a rate of the margin of 4.25% per annum plus USD LIBOR. From January 1, 2022, interest began to accrue at a rate of the margin of 4.25% per annum plus a risk free rate plus a credit adjustment spread. On and from the Issue Date to and including June 10, 2025, the margin shall decrease to 4.00% per annum and on and from June 11, 2025 up to and including the final maturity date, 4.50% per annum.

Currency exchange rates

Our functional and presentational currency is the US dollar, primarily because we price our oil sales in US dollars and substantially all of our revenues are denominated in US dollars. However, because a significant amount of our staffing and other administration costs are denominated in pounds sterling, our results are affected by changes in the US dollar/pounds sterling exchange rate.

Costs denominated in currencies other than the US dollar were 95.0%, 86.0% and 89.0% for the years ended December 31, 2019, 2020 and 2021, respectively.

The following table sets forth the high, low and average OandA US dollar/pounds sterling exchange rate for the years ended December 31, 2019, 2020 and 2021, the six months ended June 30, 2021 and 2022 and the twelve months ended June 30, 2022. The OandA exchange rate is the source used in the preparation our financial statements.

	2019	2020	2021	For the six months ended June 30, 2021	For the six months ended June 30, 2022	For the twelve months ended June 30, 2022
			(in $/£)			
Average rate for the period	1.2799	1.2869	1.3764	1.3917	1.2877	1.3281
Highest rate for the period	1.3289	1.3535	1.4193	1.4193	1.3415	1.3910
Lowest rate for the period..................	1.2166	1.2323	1.3315	1.3705	1.2233	1.2233

Source: OandA Foreign Exchange Rate

Taxation

Taxation can have a significant impact on our results of operations. We are subject to corporate income taxes, U.K. Corporation Tax, SCT, and EPL in the U.K. as well as petroleum and corporate income taxes in Malaysia. The tax charge for the six months ended June 30, 2022 was $142.4 million (2021: $19.4 million tax credit). The tax charge in the period is largely non-cash and reflects the impact of our increased profit before tax. Ring Fence Expenditure Supplement ("**RFES**") on U.K. activities, which would historically have provided an offset to the U.K. tax charge, ceased to be available to claim from the end of 2021. We continue to have access to our U.K. North Sea corporate tax losses, subject only to generating suitable future profits, which at June 30, 2022 were $2,627.7 million (2021: $3,011.0 million). We recognize deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilization. This requires our management to make judgments and assumptions regarding the amount of deferred tax that can be recognized, as well as the likelihood of future taxable profits.

U.K. and overseas tax rate differences in the six months ended June 30, 2022 were $4.2 million and relate to the difference between the U.K. effective tax rate of 40% and the 38% tax rate applicable in Malaysia. Permanent items of $19.6 million primarily relate to non-deductible fixed asset depreciation, together with other non-tax deductible expenditure. Other adjusting items of $9.8 million primarily relate to the accounting tax rate adjustment required at the half year under IAS 34 based on the full year forecasted taxable profit.

We have also historically paid Petroleum Revenue Tax ("**PRT**") in respect of our UKCS operations, which is based on taxable profits of individual production fields. However, beginning on January 1, 2016, the PRT rate was reduced to 0%. Therefore, during the six months ended June 30, 2022 we paid no PRT in relation to our UKCS operations.

Our taxation is also affected by U.K. tax incentive programs known as investment allowances. This regime essentially provides for a reduction in SCT (10%) where investments in new or existing UKCS assets qualify for a relief known as investment allowances. Investment allowances are activated by revenue generated from the field, and are recognized as a reduction in the charge to taxation in the years in which it is utilized.

We have activated investment allowance which is $2,215.3 million as of June 30, 2022, which we believe will materially reduce the level of future SCT.

On May 26, 2022, the U.K. Government introduced the new EPL on the profits earned from the production of oil and gas in the U.K., which was substantively enacted on July 11, 2022. The EPL is charged at the rate of 25% on taxable profits in addition to ring fence corporation tax of 30% and the ring fence supplementary charge ("**SCT**") of 10%. The EPL tax is a temporary measure and as enacted will cease to apply after December 31, 2025. Had the EPL been enacted in the interim period, a cash tax liability of $5.6 million would have been recognized in respect of Adjusted Business Performance in the period from May 26, 2022 to June 30, 2022, with an additional cash tax liability of $14.4 million recognized in remeasurements and exceptional items in the same period.

In addition to the investment allowances activated, we have unactivated allowances as of June 30, 2022 as set forth in the following table.

Field Name	As of June 30, 2022
	(in millions of $)
Conrie[(1)]	24.7
Ythan[(1)]	5.3
Galia[(2)]	100.1
Kraken North	300.9
Alba	0.3

(1) Conrie and Ythan form part of the Dons which ceased production in early 2021. Allowances are unlikely to be fully activated due to cessation of production.

(2) Allowances are unlikely to be activated due to cessation of production.

With continuing investment in our existing assets, we do not expect to pay material U.K. cash income tax related to U.K. Corporation Tax and SCT for the foreseeable future, although had the EPL been considered in the interim period, a cash tax liability of $20.0 million would have been recognized of which $5.6 million would have been in respect of business performance in the period from May 26, 2022 to June 30, 2022. We expect to pay cash taxes in relation to the EPL for the duration of the levy.

With respect to our Malaysian operations, we pay a 38% petroleum income tax on the profit oil derived from the production sharing agreements under which we operate our Malaysian assets in addition to a royalty payable on its oil sales. There are no tax losses carried forward in relation to our Malaysian operations. We paid and will continue to pay petroleum income taxes in Malaysia throughout the life of the PSC.

We are subject to various tax claims relating to VAT due on certain shipping transfers, employment tax due in relation to certain accommodation and canteen benefits and a dispute with HMRC over certain titles, all of which arise in the ordinary course of our business, including tax claims from tax authorities in the U.K. and Malaysia. We assess all such claims in the context of the tax laws of the countries in which we operate and, where applicable, make provision for any settlements which we consider to be probable. See "*Regulation—United Kingdom—Tax regulations*," "*Our business—Legal and arbitration proceedings*," "*Risk factors—Risks relating to our business—Our tax liability is subject to estimation and we may be adversely affected by changes to tax legislation or its interpretation or increases in effective tax rates in the jurisdictions in which we do business*."

We may also be affected by how taxes impact our counterparties and contracts. Modifications may cause certain third parties with which we contract to experience increased costs, which they may seek to pass on to us through contractual pass- through provisions or in future negotiations. We may be required to pay some or all of these increased costs.

Remeasurements and exceptional items

Our results are affected by exceptional items and remeasurements. The effect of exceptional items and remeasurements during the periods presented is as set forth below.

	For the year ended December 31,			For the six months ended June 30,		For the twelve months ended June 30,
	2019	2020[(8)]	2021	2021	2022	2022
	(in millions of $)					
Revenue and other operating income[(1)]	(65.4)	8.8	(54.5)	(37.0)	(104.7)	(122.2)
Cost of sales[(2)]	(0.4)	(13.6)	(7.2)	—	(0.5)	(7.7)
Net impairment reversal/(charge) on oil and gas assets[(3)]	(812.4)	(422.5)	39.7	—	10.1	49.8
Other income[(4)]	—	138.2	162.6	27.5	4.1	139.2
Other expenses[(5)]	(31.7)	(1.0)	(3.8)	—	(31.0)	(34.8)
Finance costs[(6)]	(57.2)	(77.3)	(58.4)	(30.3)	(17.9)	(46.0)
Profit/(loss) before tax	**(967.1)**	**(367.3)**	**78.5**	**(39.8)**	**(139.8)**	**(21.6)**
Tax on items above[(7)]	303.5	138.8	(26.3)	14.7	55.5	14.5
Recognition/(Derecognition) of undiscounted deferred tax asset	—	(215.2)	104.5	(139.5)	107.9	351.9
Total impact of remeasurements and exceptional items on profit/(loss) for the year attributable to owners of the parent	**(663.6)**	**(443.8)**	**156.7**	**(164.6)**	**23.5**	**344.8**

(1) In the year ended December 31, 2021, unrealized losses on oil derivative contracts were $54.5 million comprised of $55.6 million of losses from commodity options and $1.1 million of gains from commodity swaps.

In the year ended December 31, 2020, unrealized gains on oil derivative contracts were $8.8 million comprised of $0.1 million of losses from commodity options and $8.9 million of gains from commodity swaps.

In the year ended December 31, 2019, unrealized losses on oil derivative contracts were $65.4 million comprised of $55.5 million of losses from commodity options, $10.0 million of losses from commodity swaps and a gain of $0.1 million in commodity futures.

In the six months ended June 30, 2022, unrealized losses on oil derivative contracts were $104.7 million comprised of $106.0 million of losses from commodity options and a $1.3 million gain from commodity swaps.

In the six months ended June 30, 2021, unrealized losses on oil derivative contracts were $37.0 million comprised of $35.8 million of losses from commodity options and $1.2 million of losses from commodity swaps.

(2) In the year ended December 31, 2021, unrealized gains on derivative contracts related to operating costs were $0.5 million comprised of $0.4 million of gains from foreign exchange contracts and $0.1 million of gains from U.K. emission allowances forward contracts. The remaining $7.7 million were related to movements in other provisions.

In the year ended December 31, 2020, unrealized losses on derivative contracts related to operating costs were $1.9 million comprised of a loss of $1.9 million in foreign exchange contracts. The remaining $11.7 million were related to movements in other provisions.

In the year ended December 31, 2019, unrealized losses on derivative contracts related to operating costs were $0.4 million comprised of $1.7 million of gains from foreign exchange contracts and $2.1 million of losses from EU emission allowances forwards contracts.

In the six months ended June 30, 2022, unrealized losses on derivative contracts related to operating costs were $0.5 million comprised of $0.4 million of losses from foreign exchange contracts and $0.1 million of losses related to UKA contracts.

In the six months ended June 30, 2021, unrealized gains on derivative contracts related to operating costs were $nil.

(3) In the year ended December 31, 2021, the impairment reversal of $39.7 million was split between net impairment reversal of $24.0 million recognized in respect of oil and gas assets and $15.7 million in respect of right-of-use assets, respectively, within the North Sea segment primarily driven by an increase in our near-term future oil price assumptions.

In the year ended December 31, 2020, the impairment charge of $422.5 million was split between impairment charges of $314.3 million recognized in respect of oil and gas assets and $108.2 million in respect of right-of-use assets, respectively, within the North Sea segment primarily due to changes in long-term oil price assumptions.

In the year ended December 31, 2019, the impairment charges of $637.5 million on our tangible oil and gas assets arose from a reduction in the long-term oil price, revisions to reserve profiles in Heather/Broom, Thistle/Deveron and the Dons fields and the anticipated cessation of production at Alma/Galia. These changes also resulted in impairment charges of $149.6 million to our goodwill and $25.4 million to our intangible assets.

In the six months ended June 30, 2022, a net impairment reversal of $10.1 million was recognized as a result of increased short-term oil price forecasts.

In the six months ended June 30, 2021, there were no impairment reversals or charges.

(4) In the year ended December 31, 2021, other income included $140.1 million relating to fair value changes in contingent consideration related to the acquisition of Magnus.

In the year ended December 31, 2020, other income included $138.2 million relating to fair value changes in contingent consideration related to the acquisition of Magnus.

In the year ended December 31, 2019 there was no other income.

In the six months ended June 30, 2022, other income included $4.1 million were related to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure.

In the six months ended June 30, 2021, other income included $27.5 million relating to the fair value remeasurement of contingent consideration related to the acquisition of Magnus.

(5) In the year ended December 31, 2021, other expenses of $3.8 million were related to expenses incurred on the repayment of the BP vendor loan.

In the year ended December 31, 2020, other expenses of $1.0 million were primarily attributable to the loss on derecognition of the assets related to the Seligi riser detachment.

Other expenses in the year ended December 31, 2019 mainly related to the provision for settlement of the historical KUFPEC claim of $15.6 million and fair value adjustment relating to the contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $15.5 million.

In the six months ended June 30, 2022, other expenses included a $31.0 million loss in relation to fair value recalculation of the Magnus contingent consideration reflecting a forecast increase in Magnus future cash flows as a result of increased short-term oil price forecast.

In the six months ended June 30, 2021, there were no remeasurements or exceptional items impacting other expenses.

(6) In the year ended December 31, 2021, finance costs reflect the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $58.4 million.

In the year ended December 31, 2020, finance costs reflect the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $77.3 million.

In the year ended December 31, 2019, finance costs reflect the unwinding of contingent consideration in relation to the acquisition of Magnus and associated infrastructure of $57.2 million.

In the six months ended June 30, 2022, finance costs included $17.9 million associated with the unwinding of discount on contingent consideration on the 75% acquisition of Magnus and associated infrastructure.

In the six months ended June 30, 2021, finance costs reflect unwinding of discount on contingent consideration on the 75% acquisition of Magnus of $30.3 million.

(7) In considering the tax on exceptional items, we apply the appropriate statutory tax rate to each item to calculate the relevant tax charge on exceptional items.

In the year ended December 31, 2021, a net tax credit of $78.2 million has been recognized as exceptional, representing the recognition of undiscounted deferred tax assets of $104.5 million following our acquisition of Golden Eagle and our higher oil price assumptions, partially offset by a tax charge of $26.3 million charged on the remeasurements and exceptional items.

In the year ended December 31, 2020, a net tax charge of $76.4 million has been recognized as exceptional, representing the de-recognition of undiscounted deferred tax assets of $215.2 million in light of lower long-term oil price assumptions, partially offset by a tax credit of $138.8 million charged on the remeasurements and exceptional items.

In the year ended December 31, 2019 there was no material other tax exceptional items, with the full credit of $303.5 million relating to tax charged on the remeasurements and exceptional items and no recognition or derecognition of undiscounted deferred tax assets.

In the six months ended June 30, 2022, a net tax credit of $163.4 million has been recognized as exceptional, representing the non-cash recognition of $107.9 million of undiscounted deferred tax assets due to increased short-term oil price assumptions and the tax impact of exceptional items and remeasurements. Had the EPL been enacted in the interim period, as cash tax liability of $14.4 million would have been recognized in respect of remeasurements and exceptional items in the period between May 26, 2022 and June 30, 2022.

In the six months ended June 30, 2021, a net tax charge of $124.9 million has been recognized as exceptional, representing the tax impact of unrealized losses of $37.0 million in respect of the mark-to-market movement on commodity contracts, a $27.5 million gain in relation to the fair value recalculation of the Magnus contingent consideration, finance costs of $30.3 million relating to the unwinding of contingent consideration from the acquisition of Magnus and interest charges on the vendor loan and a non-cash derecognition of undiscounted deferred tax assets of $139.5 million.

(8) The income statement for the year ended December 31, 2020 has been restated to reflect a change in presentation of rental income and the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements.*"

The income and costs represented by these items are not typical to our results and in certain cases apply only in one period. For example, "Other tax exceptional items" mainly includes the tax effect of previously derecognized tax losses, as well as the impact on deferred tax of a revision to the balance of non-qualifying expenditure. See "*Selected financial data*."

IFRS requires that a fair value exercise is undertaken allocating the cost of acquiring controlling interests to the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Any difference between the cost of acquiring the interest and the fair value of the acquired net assets, which includes identified contingent liabilities, is recognized as acquired goodwill and our assets are increased by this fair value uplift.

The fair value exercise is performed as at the date of acquisition. We are required to recognize depletion charges for the fair value uplift, which are accounted for as part of cost of sales.

Significant factors affecting comparability

Magnus oil field acquisition

On December 1, 2018, we completed the Magnus Acquisition from BP of the remaining 75.0% interest in the Magnus oil field, an additional 9.0% interest in the SVT and supply facility and other additional interests in associated infrastructure having acquired a 25.0% interest in the Magnus field and a 3.0% interest in the SVT and supply facility (amongst other assets) (collectively, the "**Magnus Assets**") in December 2017. The consolidated financial statements as of and for the year ended December 31, 2018 include the fair values of the identifiable assets and liabilities of the Magnus Acquisition as at the date of acquisition and the results of the assets from December 1, 2018.

The total consideration for the Magnus Acquisition comprised $100.0 million cash consideration and $200.0 million deferred consideration financed by BP plc. With an effective date of January 1, 2017, the deferred consideration was adjusted for the interim period and working capital adjustments, resulting in contingent consideration of $116.5 million as of December 1, 2018. The outstanding amount of deferred consideration financed by BP plc was repaid in full in July 2021. The consideration also includes a contingent profit sharing arrangement whereby we and BP plc share the net cash flow generated by the 75.0% interest on a 50:50 basis, subject to a cap of $1 billion received by BP plc. Together, the deferred consideration and contingent profit sharing arrangement are known as the "Magnus Contingent Consideration."

The acquisition of the remaining 75.0% interest is considered a step acquisition as per IFRS 3 *Business Combinations*. The property, plant and equipment acquired with the initial 25.0% was fair valued as of December 1, 2018, recognizing an uplift of $123.9 million to property, plant and equipment and a corresponding deferred tax liability of $49.6 million. The gain on uplift of $74.3 million was recognized through other income in remeasurements and exceptional items in the group income statement.

As of December 31, 2019, the Magnus Contingent Consideration was fair valued at $641.4 million, a decrease in fair value of $19.1 million, reflecting the change in oil price assumptions, and unwinding of discount offset by utilization.

As of December 31, 2020, the Magnus Contingent Consideration was fair valued at $507.7 million, a decrease in fair value of $133.7 million, reflecting the change in oil price assumptions and unwinding of discount partially offset by utilization.

As of December 31, 2021, the Magnus Contingent Consideration was fair valued at $344.6 million, a decrease in fair value of $163.1 million, reflecting revised operating cost assumptions and the repayment in full of the outstanding amount due on the deferred consideration financed by BP plc in July.

As of June 30, 2022, the Magnus Contingent Consideration was fair valued at $392.4 million, reflecting a change in short-term oil price assumptions.

Magnus oil field decommissioning-linked contingent consideration

As part of the Magnus Acquisition and associated interests acquisition, BP retained the decommissioning liability in respect of the existing wells and infrastructure and we agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Magnus. As of June 30, 2022, the amount due to BP calculated on an after-tax basis by reference to 30% of BP's decommissioning costs on Magnus was $18.0 million (December 31, 2021: $21.0 million).

Golden Eagle contingent consideration

On October 22, 2021, we completed the acquisition of a 26.7% non-operated working interest in the Golden Eagle Area Development, comprising the producing Golden Eagle, Peregrine and Solitaire fields. The consideration for the acquisition included an amount that was contingent on the average oil price between July 2021 and June 2023. 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. The contingent consideration liability is discounted at 7% and is calculated principally based on the oil price assumptions. As of June 30, 2022, the contingent consideration was valued at $46.7 million.

Explanation of income statement items

Revenue and other operating income

Oil and gas revenues, our largest sources of revenue, are comprised of our share of sales from the processing or sale of hydrocarbons on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer. Tariff revenue is recognized in the period in which the services are provided at the agreed contract rates.

Other operating income is comprised of realized gains and unrealized gains on our commodity hedging contracts.

Revenue from contracts with customers

We generate revenue through contracts with customers for the sale of crude oil, gas and condensate to third parties and for the provision of infrastructure to our customers in exchange for a tariff. Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer, at an amount that reflects the consideration which we expect to be entitled in exchange for those goods or services. We have concluded that we are the principal in our revenue arrangements because we typically control 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

We sell crude oil, gas and condensate directly to customers. The sale represents a single performance obligation, which is satisfied when the customer takes physical possession of the commodity or the commodity is delivered to an infrastructure. At this point, the title to the commodity passes to the customer and revenue is recognized. We principally satisfy our performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant. Transaction prices are referenced to quoted prices, plus or minus an agreed discount rate when applicable.

Tariff revenue for the use of our infrastructure

Tariffs are charged to customers for the use of infrastructure that we own. The revenue represents the performance of an obligation for the use of our assets over the life of the contract. The use of the assets is not separable as they are interdependent to fulfill the contract and no one item of infrastructure can be individually isolated. Revenue is recognized 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 income

Other operating income also includes gains or losses from oil derivative trading transactions. Other operating income includes vessel rental income, which is recognized to the extent that its probable economic benefits will flow to us and the revenue can be reliably measured.

We enter 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 *Revenue from Contracts with Customers*, and are included within other operating income.

Cost of sales

Our cost of sales consists of the costs of operations, changes in lifting position, crude oil inventory movements, depletion of oil and gas assets and underlying operating costs such as tariff and transportation expenses charged back to us based on our proportionate use of infrastructure and according to the total costs of the operator of such infrastructure. Inventories of consumable well supplies and inventories of hydrocarbons are stated at the lower of cost and net realizable value, cost being determined on an average cost basis. 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.

We include in cost of sales an amount for changes in lifting position. Changes in lifting position occur when there has been a change in our cumulative "over-lift" or "under-lift" for the period ending on a balance sheet date. Over-lifts/under-lifts occur when there is an imbalance during a given period between the amount of saleable production (which is our interest in gross production less shrinkage, e.g. due to process fuel used at the terminal or to value adjustments) and our sales. Such an imbalance occurs because we typically nominate the volume to be lifted and invoiced approximately two months in advance and cannot estimate future saleable production volumes with certainty. Where multiple production companies share the pipeline and processing infrastructure, any over-lift is effectively a sale of another producer's production. 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 realizable value, consistent with IAS2 (an international financial reporting standard produced and disseminated by the International Accounting Standards Board), 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.

Cost of sales also includes gains or losses related to the ineffective portion of our foreign exchange hedging contracts.

Impairment of oil and gas assets

At each balance sheet date, we assess assets or groups of assets, called cash- generating units ("**CGUs**"), 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, we make 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*), are 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. 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 recognized immediately in our 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in our income statement.

General and administration expenses

General and administration expenses include staff costs, depreciation, other general and administration costs and recharge of costs to operations and joint venture partners. Staff costs are capitalized or expensed when incurred. Capitalized staff costs are included within property, plant and equipment or intangible assets based on the balance sheet classification on the underlying assets on which the employee has worked. With respect to the assets at which we are the operator, our joint venture agreements typically allow us to charge back our expenses as operator to our partners at specified percentages and subject to certain conditions. These agreements typically allow us to charge to our commercial partners an additional amount up to a specified percentage of the total costs at an asset to compensate for parent company overhead. Payments received through such chargebacks offset general and administration costs.

General and administration expenses also include business development costs, such as the costs of evaluating potential acquisitions and disposals.

Net other income and other expenses

For the periods presented, other income is comprised of the change in fair value on the Magnus contingent consideration. We also include reductions in decommissioning provisions for assets that have ceased production or are fully impaired, rental income, net foreign exchange gains and one-off items such as the gain resulting from the termination of the Tanjong Baram risk service contract.

For the periods presented, other expenses are comprised mainly of increases in the decommissioning provision for assets that have ceased production or are fully impaired, changes in relation to the estimate of the Thistle decommissioning provision, change in fair value on the Magnus contingent consideration and net foreign exchange losses. We also include one off items such as the provision for settlement of the historical KUFPEC claims, which were breach of warranty claims by our field partner KUFPEC in respect of Alma/Galia.

Finance costs

Finance costs primarily include loan and bond interest, unwinding of discount on decommissioning provisions, unwinding of discount on other provisions, unwinding of discount on financial liabilities, finance costs on contingent consideration from the acquisition of Magnus and associated infrastructure, finance charges payable under finance leases, and other financial expenses, less any amounts capitalized in relation to the development costs of any qualifying asset.

Finance income

Finance income includes bank interest receivable, unwinding of discount on financial assets and other financial income.

Income tax

Income tax represents the sum of tax currently payable and deferred tax under the laws of each jurisdiction in which we do business. This includes U.K. corporation tax, EPL and SCT as well as PRT which is payable on profits from individual fields in the U.K., and Malaysian petroleum and corporate income taxes.

Results of operations

Results of operations for the six months ended June 30, 2021 and 2022

The following table sets forth certain of our historical revenue and expense items for the six months ended June 30, 2021 and 2022.

	For the six months ended June 30,					
	2021			2022		
	Adjusted Business performance[2]	Remeasurements and exceptional items	Reported in year	Adjusted Business performance[1]	Remeasurements and exceptional items	Reported in year
	(in millions of $)					
Revenue and other operating income	518.3	(37.0)	481.3	943.5	(104.7)	838.8
Cost of sales	(333.3)	—	(333.3)	(585.6)	(0.5)	(586.1)
Gross profit/(loss)	**185.0**	**(37.0)**	**148.1**	**357.9**	**(105.2)**	**252.8**
Net impairment reversal/(charge) to oil and gas assets	—	—	—	—	10.1	10.1
General and administration expenses	(0.1)	—	(0.1)	(3.1)	—	(3.1)
Other income	4.3	27.5	31.8	62.3	4.1	66.4
Other expenses	(13.9)	—	(13.9)	(1.0)	(31.0)	(32.0)
Profit/(loss) from operations before tax and finance income/(costs)	**175.4**	**(9.5)**	**165.9**	**416.1**	**(122.0)**	**294.2**
Finance costs	(86.6)	(30.3)	(116.9)	(94.1)	(17.9)	(112.0)
Finance income	0.1	—	0.1	0.4	—	0.4
Profit/(loss) before tax	**88.9**	**(39.8)**	**49.1**	**322.4**	**(139.8)**	**182.6**
Income tax	19.4	(124.9)	(105.4)	(142.4)	163.4	21.0
Profit/(loss) for the year attributable to owners of the parent	**108.2**	**(164.6)**	**(56.4)**	**180.0**	**23.5**	**203.5**

(1) Adjusted business performance is our reported performance adjusted to remove the effects of remeasurements and exceptional items. We have adjusted the header of this column to comply with US market practice for labeling non-IFRS measures. The Audited Financial Statements presentation is compliant with the U.K. standards set by the Financial Reporting Committee.

Comparison of results of operations for the six months ended June 30, 2021 and 2022

Revenue and other operating income

Revenue and other operating income increased by $357.5 million, or 74.3%, to $838.8 million for the six months ended June 30, 2022, from $481.3 million for the six months ended June 30, 2021, primarily due to materially higher oil prices and the contribution of Golden Eagle.

Revenue and other operating income before remeasurements and exceptional items increased by $425.2 million, or 82.0%, to $943.5 million in the six months ended June 30, 2022 from $518.3 million in the six months ended June 30, 2021, primarily due to materially higher oil prices and the contribution of Golden Eagle.

Our daily average production on a working interest basis was 49,726 boepd for the six months ended June 30, 2022, compared to 46,187 boepd for the six months ended June 30, 2021, such increase reflecting the impact of the higher production at Golden Eagle and higher production in Malaysia partially offset by lower production at Magnus and Kraken.

Revenue is predominantly derived from crude oil sales. For the six months ended June 30, 2022 crude oil sales was $851.2 million compared with $490.5 million in the six months ended June 30, 2021, reflecting materially higher oil prices and the contribution of Golden Eagle.

Revenue from the sale of condensate and gas was $252.9 million for the six months ended June 30, 2022 compared with $57.9 million in the year ended June 30, 2021, primarily as a result of higher market prices. Revenue from the sale of condensate and gas primarily relates to the onward sale of third-party gas purchases not required for injection activities at Magnus.

Our commodity hedges and other oil derivatives generated $162.3 million of realized losses for the six months ended June 30, 2022, compared to losses of $32.9 million in the six months ended June 30, 2021, as a result of the timing at which the hedges were entered.

Our average realized price per barrel of oil sold (including the impact of hedging) was $89.9/bbl for the six months ended June 30, 2022, compared to $62.8/bbl in the six months ended June 30, 2021.

Cost of sales

Cost of sales increased by $252.8 million, or 75.8%, to $586.1 million for the six months ended June 30, 2022 from $333.3 million for the six months ended June 30, 2021. Cost of sales before remeasurements and exceptional items increased by $252.3 million to $585.6 million for the six months ended June 30, 2022 from $333.3 million in the six months ended June 30, 2021. The increase in cost of sales was primarily due to the higher cost of Magnus-related third-party gas purchases following the increase in the market price for gas.

Operating costs, which include production costs, tariff and transportation expenses and the effect of any realized gains or losses on derivatives related to operating costs, increased by $55.4 million, or 36.1%, to $208.4 million for the six months ended June 30, 2022 from $153.1 million for the six months ended June 30, 2021, primarily reflecting well intervention work at Magnus and PM8/Seligi, the addition of Golden Eagle, maintenance spend at Magnus and higher diesel and emissions credits prices.

Production costs increased by $41.7 million, or 30.0%, to $181.2 million for the six months ended June 30, 2022 from $139.5 million for the six months ended June 30, 2021. Tariff and transportation expenses increased by $1.7 million, or 7.8%, to $23.4 million for the six months ended June 30, 2022 from $21.7 million in the six months ended June 30, 2021.

Average unit operating cost increased by $3.4/boe, or 17.6%, to $22.7/boe for the six months ended June 30, 2022 from $19.3/boe for the six months ended June 30, 2021, primarily reflecting the higher costs partially offset by higher production.

Depletion expense increased by $21.1 million, or 13.8%, to $174.2 million for the six months ended June 30, 2022 from $153.1 million for the six months ended June 30, 2021, primarily due to the addition of Golden Eagle to the portfolio.

The credit relating to the Group's lifting position and hydrocarbon inventory as at June 30, 2022 and June 30, 2021 was $29.9 million and $26.1 million, respectively. The credit in the six months ended June 30, 2022 primarily reflects a switch to a $5.2 million net underlift position at June 30, 2022 from a $18.0 million net overlift position at December 31, 2021 primarily driven by the unwinding of the overlift at Magnus from the year end.

Other cost of operations, which forms part of the total cost of sales balance, increased by $179.8 million to $232.9 million for the six months ended June 30, 2022 from $53.1 million for the six months ended June 30, 2021. This primarily reflects higher Magnus-related third-party gas purchases reflecting the increase in associated market prices which is offset by gas sales within revenue. The average day ahead gas price increase from 52p/Therm for the six months ended June 30, 2021 to 183p/Therm for the six months ended June 30, 2022.

General and administration expenses

General and administration expenses increased by $3.0 million to a charge of $3.1 million for the six months ended June 30, 2022 from a charge of $0.1 million reported in the six months ended June 30, 2021.

Other income/expenses

Net other income increased by $70.8 million to $61.3 million for the six months ended June 30, 2022, from net other expense of $9.5 million for the six months ended June 30, 2021, primarily due to a $32.3 million change in decommission estimate of fully impaired assets (including Thistle-linked decommissioning liability) and $24.7 million of net foreign exchange gains. Net other expenses for the six months ended June 30, 2021 primarily reflected the recognition of $6.3 million of expenses in relation to the increase in the decommissioning provision of fully impaired assets and foreign exchange losses of $6.4 million, partially offset by other income.

Finance costs

Finance costs increased by $7.5 million, or 8.7% to $94.1 million for the six months ended June 30, 2022 from $86.6 million for the six months ended June 30, 2021. This increase was primarily driven by a $14.2 million increase in amortization of finance fees associated with our loans and bonds to $17.9 million in the six months ended June 30, 2022 from $3.7 million in the six months ended June 30, 2021, reflecting accelerated repayments on the RBL Facility, partially offset by a $6.0 million decrease in bond interest payable to $31.5 million in the six months ended June 30, 2022 from $37.5 million in the six months ended June 30, 2021. Other finance costs in the six months ended June 30, 2022 included loan interest payable of $8.6 million (2021: $10.8 million), $8.9 million related to unwinding of discount on decommissioning provisions and other liabilities (2021: $8.5 million) and other financial expenses of $3.4 million (2021: $2.6 million), primarily being the cost for surety bonds to provide security for decommissioning liabilities.

The following table sets forth additional details on our finance costs for the six months ended June 30, 2021 and 2022.

	For the six months ended June 30,		
	2021	**2022**	**% Change**
	(in millions of $)		
Loan interest payable	10.8	8.6	(20.4)
Bond interest payable	37.5	31.5	(16.0)
Unwinding of discount on decommissioning provisions	7.9	8.5	7.6
Unwinding of discount on other provisions	0.5	0.4	(20.0)
Finance charges payable under leases	23.5	20.0	(15.0)
Amortization of finance fees on loans and bonds	3.7	17.9	383.9
Other financial expenses	2.6	3.4	30.8
Fees associated with issuance of 9% Retail Notes	—	3.7	—
Adjusted Business performance finance expenses(1)	**86.6**	**94.1**	**8.7**
Finance costs on Magnus-related contingent consideration	30.3	17.9	(40.9)
Total finance costs	**116.9**	**112.0**	**(4.2)**

(1) Adjusted business performance is our reported performance adjusted to remove the effects of remeasurements and exceptional items. We have adjusted the header of this column to comply with US market practice for labeling non-IFRS measures. The Audited Financial Statements presentation is compliant with the U.K. standards set by the Financial Reporting Committee.

Finance income

Finance income increased by $0.3 million to $0.4 million for the six months ended June 30, 2022 from $0.1 million for the six months ended June 30, 2021.

Income tax

We recorded an income tax charge, before remeasurements and exceptional items, of $142.4 million for the six months ended June 30, 2022 compared to an income credit of $19.4 million for the six months ended June 30, 2021, excluding exceptional items. The tax charge in the period was largely non-cash and reflects the tax impact of our increased profit before tax. The Ring Fence Expenditure Supplement ("**RFES**") on U.K. activities, which would historically provide an offset to the U.K. tax charge, ceased to be available to claim from the end of 2021. Had the Energy Profits Levy ("**EPL**") been enacted in the interim period, a cash tax liability of $5.6 million would have been recognized, excluding exceptional items, in the period from May 26, 2022 to June 30, 2022.

A net tax credit for the six months ended June 30, 2022 of $163.4 million (2021: charge of $124.9 million) has been presented as exceptional, representing the non-cash recognition of $107.9 million of undiscounted deferred tax assets due to increased short-term oil price assumptions and the tax impact of the other exceptional items and remeasurements. Had the EPL been enacted in the interim period, a cash tax liability of $14.4 million would have been recognized in respect of remeasurements and exceptional items in the period from May 26, 2022 to June 30, 2022.

The net deferred take asset has increased from $703.0 million at December 31, 2021 to $732.1 million at June 30, 2022, driven primarily by higher short-term oil price assumptions. Had the EPL been fully enacted before June 30, 2022, these half-year results would have recognized an additional net deferred tax liability of $106.6 million as at June 30, 2022.

We continue to have access to our UK North Sea corporate tax losses, subject only to generating suitable future profits, which at June 30, 2022 were $2,627.7 million (2021: $3,011.0 million).

Results of operations for the year ended December 31, 2020 and 2021

The following table sets forth certain of our historical revenue and expense items for the years ended December 31, 2020 and 2021.

	For the year ended December 31,					
	2020[(1)]			**2021**		
	Adjusted Business performance[(2)]	**Remeasurements and exceptional items**	**Reported in year**	**Adjusted Business performance[(2)]**	**Remeasurements and exceptional items**	**Reported in year**
	(in millions of $)					
Revenue and other operating income	855.1	8.8	863.9	1,320.3	(54.5)	1,265.8
Cost of sales	(785.5)	(13.6)	(799.1)	(900.4)	(7.2)	(907.6)
Gross profit/(loss)	**69.6**	**(4.8)**	**64.8**	**419.8**	**(61.7)**	**358.2**
Net impairment reversal/(charge) to oil and gas assets	—	(422.5)	(422.5)	—	39.7	39.7
General and administration expenses	(6.1)	—	(6.1)	(0.4)	—	(0.4)
Other income	18.1	138.2	156.3	31.0	162.6	193.6
Other expenses	(101.6)	(1.0)	(102.6)	(7.3)	(3.8)	(11.1)
Profit/(loss) from operations before tax and finance income/(costs)	**(20.0)**	**(290.1)**	**(310.1)**	**443.2**	**136.9**	**580.1**
Finance costs	(179.8)	(77.3)	(257.1)	(169.5)	(58.4)	(227.8)
Finance income	1.2	—	1.2	0.2	—	0.2
Profit/(loss) before tax	**(198.7)**	**(367.3)**	**(566.0)**	**274.0**	**78.5**	**352.4**
Income tax	172.5	(76.4)	96.0	(53.7)	78.2	24.5
Profit/(loss) for the year attributable to owners of the parent	**(26.2)**	**(443.8)**	**(469.9)**	**220.3**	**156.7**	**377.0**

(1) The income statement for the year ended December 31, 2020 has been restated to reflect a change in presentation of rental income and the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements.*"

(2) Adjusted business performance is our reported performance adjusted to remove the effects of remeasurements and exceptional items. We have adjusted the header of this column to comply with US market practice for labeling non-IFRS measures. The Audited Financial Statements presentation is compliant with the U.K. standards set by the Financial Reporting Committee.

Comparison of results of operations for the years ended December 31, 2020 and 2021

Revenue and other operating income

Revenue and other operating income increased by $401.9 million, or 46.5%, to $1,265.8 million for the year ended December 31, 2021, from $863.9 million for the year ended December 31, 2020, primarily reflecting higher realized oil prices partially offset by lower volumes.

Revenue and other operating income before remeasurements and exceptional items increased by $465.2 million, or 54.4%, to $1,320.3 million in the year ended December 31, 2021 from $855.1 million in the year ended December 31, 2020, primarily as a result of materially higher oil and gas prices.

Our daily average production on a working interest basis was 44,415 boepd for the year ended December 31, 2021, compared to 59,116 boepd for the year ended December 31, 2020, primarily as a result of well integrity and topside downtime at Magnus, outages due to planned maintenance and a subsea power umbilical failure at the Greater Kittiwake Area, delayed pipeline replacement in Malaysia and natural declines across the portfolio, partially offset by the contribution from Golden Eagle.

Revenue is predominantly derived from crude oil sales and for the year ended December 31, 2021 crude oil sales were $1,139.2 million compared with $779.9 million for the year ended December 31, 2020. The increase in revenue was principally because of higher realized oil prices partially offset by a reduction of production.

Revenue from the sale of condensate and gas, primarily in relation to the onward sale of third-party gas purchases not required for injection activities at Magnus, was $244.1 million for the year ended December 31, 2021 compared with $60.5 million for the year ended December 31, 2020, primarily as a result of significantly higher realized gas prices.

Our commodity hedges and other oil derivatives generated $67.7 million of realized losses for the year ended December 31, 2021, compared to $6.1 million of realized gains for the year ended December 31, 2020.

Our average realized price per barrel of oil sold (including the impact of hedging) was $68.6/bbl for the year ended December 31, 2021, compared to $41.3/bbl for the year ended December 31, 2020. These realized prices are consistent with average oil prices for 2021 and 2020.

Cost of sales

Cost of sales increased by $108.5 million, or 13.6%, to $907.6 million for the year ended December 31, 2021 from $799.1 million for the year ended December 31, 2020. Cost of sales before remeasurements and exceptional items increased by $114.9 million to $900.4 million for the year ended December 31, 2021 from $785.5 million in the year ended December 31, 2020, primarily as a result of higher other costs of operations and the charge associated with our lifting position partially offset by the lower depletion expense as detailed below.

Operating costs, which include production costs, tariff and transportation expenses and the effect of any realized gains or losses on derivatives related to operating costs, decreased by $7.6 million, or 2.3%, to $321.0 million for the year ended December 31, 2021 from $328.6 million for the year ended December 31, 2020, primarily due to reduced tariff and transportation costs due to lower production in 2021 and realized derivative gains related to emissions allowances. This was largely offset by higher production costs driven by materially higher emission allowances costs, lower lease charter credits reflecting higher uptime at Kraken driven by the continued strong performance of the FPSO and remediation costs at Magnus.

Production costs increased to $292.3 million for the year ended December 31, 2021 from $265.5 million for the year ended December 31, 2020. Tariff and transportation expenses decreased to $39.4 million for the year ended December 31, 2021 from $63.7 million in the year ended December 31, 2020.

Average unit operating cost (excluding hedging) increased by $5.3/boe, or 34.9%, to $20.5/boe for the year ended December 31, 2021 from $15.2/boe for the year ended December 31, 2020, reflecting lower production. Average Unit operating costs (including hedging) increased by $4.6/boe from $15.2/boe for the year ended December 31, 2020 to $19.8/boe for the year ended December 31, 2021.

Our depletion expense decreased by $132.6 million, or 30.3%, to $305.6 million for the year ended December 31, 2021 from $438.2 million for the year ended December 31, 2020, mainly reflecting lower production.

The charge relating to our lifting position and inventory was $62.3 million (2020: credit of $34.8 million). This reflects a switch to an $18.0 million net overlift position at December 31, 2021 from a $3.0 million net underlift position at December 31, 2020. The charge for the year is also impacted by the post-acquisition revaluation of the underlift position at Golden Eagle.

Other cost of operations of $211.6 million were materially higher than in 2020 ($53.4 million), principally as a result of higher Magnus-related third-party gas purchases following the increase in associated market prices, offset by a partial release of the inventory provision.

Net impairment reversal/(charge) to oil and gas assets

Net impairment reversal/(charge) to oil and gas assets was a reversal of $39.7 million for the year ended December 31, 2021 compared to a charge of $422.5 million for the year ended December 31, 2020. The charge in 2020 was primarily related to oil and gas assets ($314.3 million) and right-of-use assets ($108.2 million) within the North Sea reportable segment and impairment losses arose principally as a result of changes in oil price assumptions during the year. The net impairment reversal in 2021 primarily related to oil and gas assets ($24.0 million) and right-of-use assets ($15.7 million) within the North Sea reportable segment and principally arose as a result of an increase in our near-term future oil price assumptions.

General and administration expenses

General and administration expenses decreased by $5.7 million, or 93.4%, to $0.4 million for the year ended December 31, 2021 from $6.1 million reported in the year ended December 31, 2020. The decrease was primarily due to lower staff costs during 2021 and the change in our equity interests of the decommissioning assets.

Other income/expenses

Net other income increased by $128.8 million, or 239.9%, to $182.5 million for the year ended December 31, 2021, from net other income of $53.7 million for the year ended December 31, 2020, primarily due to increased change in decommissioning provisions. A gain on termination of the Tanjong Baram risk service contract was also recognized in 2020. In addition, in the year ended December 31, 2021 other income / expenses included remeasurements and exceptional items of $140.1 million in relation to fair value changes in contingent consideration.

Finance costs

Finance costs decreased by $29.3 million, or 11.4% to $227.8 million for the year ended December 31, 2021 from $257.1 million for the year ended December 31, 2020 primarily due to decreased loan interest payable, decreased bond interest payable and decreased finance charges payable under leases. Finance costs for 2021 included remeasurements and exceptional items of $58.4 million related to finance costs on Magnus related contingent consideration.

The following table sets forth additional details on our finance costs for the years ended December 31, 2021 and 2020.

	For the year ended December 31,		
	2020	**2021**	**% Change**
	(in millions of $)		
Loan interest payable	32.8	20.2	38.4
Bond interest payable	73.5	69.1	6.0
Unwinding of discount on decommissioning provisions	14.5	15.9	9.7
Unwinding of discount on other provisions	0.8	1.1	37.5
Finance charges payable under leases	50.9	45.4	10.8
Amortization of finance fees on loans and bonds	5.4	13.6	151.9
Other financial expenses	2.0	4.3	115.0
Adjusted business performance finance expenses[(1)]	**179.8**	**169.5**	**5.7**
Finance costs on Magnus related contingent consideration	77.3	58.4	24.5
Total finance costs	**257.1**	**227.8**	**11.4**

(1) Adjusted business performance is our reported performance adjusted to remove the effects of remeasurements and exceptional items. We have adjusted the header of this column to comply with US market practice for labeling non-IFRS measures. The Audited Financial Statements presentation is compliant with the U.K. standards set by the Financial Reporting Committee.

Finance income

Finance income decreased by $1.0 million, or 83.3%, to $0.2 million for the year ended December 31, 2021 from $1.2 million for the year ended December 31, 2020 primarily due to decreased interest received and loss of unwinding discount on the Bumi Armada Berhad receivable which was recognized in 2020.

The following table sets forth additional details on our finance income for the years ended December 31, 2021 and 2020.

	For the year ended December 31,		
	2020	2021	% Change
	(in millions of $)		
Bank interest receivable	0.9	0.2	77.8
Unwinding of discount on financial asset	0.3	—	100
Finance income	**1.2**	**0.2**	**83.3**

Income tax

We recorded an income tax charge, before remeasurements and exceptional items, of $53.7 million for the year ended December 31, 2021 compared to a tax credit before remeasurements and exceptional items of $172.5 million for the year ended December 31, 2020, primarily due to the taxable profits generated in 2021 exceeding the Ring Fence Expenditure Supplement on U.K. activities generated during the year.

Including remeasurements and exceptional items, we recorded an income tax credit of $24.5 million for the year ended December 31, 2021 compared to an income tax credit of $96.0 million for the year ended December 31, 2020, primarily due to the recognition of an undiscounted deferred tax asset following our acquisition of Golden Eagle and our higher oil price assumptions.

Results of operations for the years ended December 31, 2019 and 2020

The following table sets forth certain of our historical revenue and expense items for the years ended December 31, 2019 and 2020.

	For the year ended December 31,					
	2019			2020(1)		
	Adjusted Business performance(2)	Remeasurements and exceptional items	Reported in year	Adjusted Business performance(2)	Remeasurements and exceptional items	Reported in year
	(in millions of $)					
Revenue and other operating income	1,711.8	(65.4)	1,646.5	855.1	8.8	863.9
Cost of sales	(1,243.6)	(0.4)	(1,243.9)	(785.5)	(13.6)	(799.1)
Gross profit/(loss)	**468.3**	**(65.8)**	**402.5**	**69.6**	**(4.8)**	**64.8**
Net impairment reversal/(charge) to oil and gas assets	—	(812.4)	(812.4)	—	(422.5)	(422.5)
General and administration expenses	(7.7)	—	(7.6)	(6.1)	—	(6.1)
Other income	3.4	—	3.4	18.1	138.2	156.3
Other expenses	(21.9)	(31.7)	(53.6)	(101.6)	(1.0)	(102.6)
Profit/(loss) from operations before tax and finance income/(costs)	**442.2**	**(909.9)**	**(467.8)**	**(20.0)**	**(290.1)**	**(310.1)**
Finance costs	(206.6)	(57.2)	(263.8)	(179.8)	(77.3)	(257.1)
Finance income	2.4	—	2.4	1.2	—	1.2
Profit/(loss) before tax	**238.0**	**(967.1)**	**(729.1)**	**(198.7)**	**(367.3)**	**(566.0)**
Income tax	(23.6)	303.5	279.8	172.5	(76.4)	96.0
Profit/(loss) for the year attributable to owners of the parent	**214.3**	**(663.6)**	**(449.3)**	**(26.2)**	**(443.8)**	**(469.9)**

(1) The income statement as of December 31, 2020 has been restated to reflect a change in presentation of rental income and the 2020 deferred tax movements. See "*Presentation of financial and other information—Restatements—Presentation of our statement of cash flows.*"

(2) Adjusted business performance is our reported performance adjusted to remove the effects of remeasurements and exceptional items. We have adjusted the header of this column to comply with US market practice for labeling non-IFRS measures. The Audited Financial Statements presentation is compliant with the U.K. standards set by the Financial Reporting Committee.

Comparison of results of operations for the years ended December 31, 2019 and 2020

Revenue and other operating income

Revenue and other operating income decreased by $782.6 million, or 47.5%, to $863.9 million for the year ended December 31, 2020, from $1,646.5 million for the year ended December 31, 2019, primarily due to the materially lower realized prices and lower production.

Revenue and other operating income before remeasurements and exceptional items decreased by $856.7 million, or 50.0%, to $855.1 million in the year ended December 31, 2020 from $1,711.8 million in the year ended December 31, 2019, primarily due to materially lower realized prices and lower production.

Our daily average production was 59,116 boepd for the year ended December 31, 2020, compared to 68,606 boepd for the year ended December 31, 2019, primarily due to our decision to cease production at our highest cost assets: Heather/Broom; Thistle/Deveron; and Alma/Galia, and the impact of the detached riser in Malaysia.

Revenue is predominantly derived from crude oil sales and for the year ended December 31, 2020 crude oil sales were $779.9 million compared with $1,548.2 million in the year ended December 31, 2019 reflecting the significantly lower oil prices, a reduction of production and moving from a net overlift to a net underlift position at the end of the year.

Revenue from the sale of condensate and gas, primarily in relation to the onward sale of third-party gas purchases not required for injection activities at Magnus, was $60.5 million for the year ended December 31, 2020 compared with $120.2 million in the year ended December 31, 2019, primarily as a result of significantly lower gas prices.

Our commodity hedges and other oil derivatives generated $6.1 million of realized losses for the year ended December 31, 2020, compared to gains of $24.8 million in the year ended December 31, 2019, as a result of the timing at which the hedges were entered into.

Our average realized price per barrel of oil sold (including the impact of hedging) was $41.3 for the year ended December 31, 2020, compared to $65.3 per barrel in the year ended December 31, 2019. These realized prices are consistent with average oil prices for 2020 and 2019.

Cost of sales

Cost of sales decreased by $444.8 million, or 35.8%, to $799.1 million for the year ended December 31, 2020 from $1,243.9 million for the year ended December 31, 2019. Cost of sales before remeasurements and exceptional items decreased by $458.1 million to $785.5 million for the year ended December 31, 2020 from $1,243.6 million in the year ended December 31, 2019. The decrease in cost of sales was primarily due to lower operating costs, lower depletion charges and lower other costs of operations as detailed below.

Operating costs, which include production costs, tariff and transportation expenses and the effect of any realized gains or losses on derivatives related to operating costs, decreased by $189.5 million, or 36.6%, to $328.6 million for the year ended December 31, 2020 from $518.1 million for the year ended December 31, 2019, primarily reflecting our focus on cost control and our 2020 transformation program, the decisions to cease production at Heather/Broom and Thistle/Deveron and the cessation of production at Alma/Galia.

Production costs decreased by $176.1 million, or 39.9%, to $265.5 million for the year ended December 31, 2020 from $441.6 million for the year ended December 31, 2019. Transportation costs decreased by $11.1 million, or 14.8%, to $63.7 million for the year ended December 31, 2020 from $74.8 million in the year ended December 31, 2019.

Average unit operating cost decreased by $5.4/boe, or 26.2%, to $15.2/boe for the year ended December 31, 2020 from $20.6/boe for the year ended December 31, 2019, primarily due to the material reduction in costs having a greater impact than the lower production in the year ended December 31, 2020.

Depletion expense decreased by $86.9 million, or 16.5%, to $438.2 million for the year ended December 31, 2020 from $525.1 million for the year ended December 31, 2019, primarily due to the asset impairments as of June 30, 2020 and as of December 31, 2019, along with lower production.

The credit relating to our net lifting position was $34.8 million, reflecting a switch to a $3.0 million net underlift position as of December 31, 2020 from a $28.6 million net overlift position as of December 31, 2019.

Other cost of operations decreased by $44.0 million, or 45.1%, to $53.5 million for the year ended December 31, 2020 from $97.5 million for the year ended December 31, 2019. This primarily reflects the lower cost of Magnus-related third-party gas purchases following the reduction in the market price for gas, partially offset by the $24.9 million inventory write down recognized in the year, which principally relates to inventory held at assets now scheduled for decommissioning.

Net impairment reversal/(charge) to oil and gas assets

Net impairment reversal/(charge) to oil and gas assets was $422.5 million for the year ended December 31, 2020 compared to $812.4 million for the year ended December 31, 2019.

The charge for the year ended December 31, 2020 was primarily due to non-cash impairment charges of $314.3 million and $108.2 million recognized in respect of our oil and gas assets and right-of-use assets, respectively, within the North Sea segment representing changes to our oil price assumptions during the year. We did not have any impairment or write-offs in respect of goodwill during the year ended December 31, 2020.

The charge for the year ended December 31, 2019 was primarily due to non-cash impairment charges of $637.5 million on our tangible oil and gas assets due to a reduction in long-term oil price, revisions to production profiles at Heather/Broom, Thistle/Deveron and the Dons fields and the anticipated cessation of production at Alma/Galia, as well as non-cash impairment charges of $149.6 million attributable to the impairment of goodwill. Both the Heather/Broom and Thistle/Deveron fields were fully impaired as a result of the impairment assessment conditions as of December 31, 2019.

General and administration expenses

General and administration expenses decreased by $1.6 million, or 20.8%, to $6.1 million for the year ended December 31, 2020 from $7.7 million reported in the year ended December 31, 2019.

Other income/expenses

Net other income increased by $103.9 million to $53.7 million for the year ended December 31, 2020, from net other expense of $50.2 million for the year ended December 31, 2019, primarily due to fair value changes in contingent consideration offset by changes in decommissioning provision on assets that have ceased production or are fully impaired.

Finance costs

Finance costs decreased by $6.7 million, or 2.5% to $257.1 million for the year ended December 31, 2020 from $263.8 million for the year ended December 31, 2019. Finance costs for the year ended December 31, 2020 primarily related to a reduction of $35.0 million in interest charges associated with our loans partially offset by a $10.9 million increase in bond interest. Other finance costs included lease liability interest of $50.9 million in the year ended December 31, 2020, $15.3 million in connection with the unwinding of discount on decommissioning provisions and other liabilities, $5.4 million amortization of arrangement fees for financing facilities and bonds and other financial expenses of $2.0 million primarily relating to the cost for surety bonds to provide security for decommissioning liabilities.

The following table sets forth additional details on our finance costs for the years ended December 31, 2019 and 2020.

	For the year ended December 31,		
	2019	**2020**	**% Change**
	(in millions of $)		
Loan interest payable	67.7	32.8	51.6
Bond interest payable	62.7	73.5	17.2
Unwinding of discount on decommissioning provisions	13.4	14.5	8.2
Unwinding of discount on other provisions	0.7	0.8	14.3
Finance charges payable under leases	55.7	50.9	8.6
Amortization of finance fees on loans and bonds	5.7	5.4	5.3
Other financial expenses	2.1	2.0	4.8
Amounts capitalized to the cost of qualifying asset	(1.4)	—	100.0
Adjusted Business performance finance expenses[(1)]	**206.6**	**179.8**	**12.9**
Finance costs on Magnus-related contingent consideration	57.2	77.3	35.0
Total finance costs	**263.8**	**257.1**	**2.5**

(1) Adjusted business performance is our reported performance adjusted to remove the effects of remeasurements and exceptional items. We have adjusted the header of this column to comply with US market practice for labeling non-IFRS measures. The Audited Financial Statements presentation is compliant with the U.K. standards set by the Financial Reporting Committee.

Finance income

Finance income decreased by $1.2 million, or 50.0%, to $1.2 million for the year ended December 31, 2020 from $2.4 million for the year ended December 31, 2019.

The following table sets forth additional details on our finance income for the years ended December 31, 2019 and 2020.

	For the year ended December 31,		
	2019	**2020**	**% Change**
	(in millions of $)		
Bank interest receivable	1.5	0.9	40.0
Unwinding of discount on financial asset	0.9	0.3	66.7
Finance income	**2.4**	**1.2**	**50.0**

Income tax

We recorded an income tax credit, before remeasurements and exceptional items, of $172.5 million for the year ended December 31, 2020 compared to an income tax charge of $23.6 million for the year ended December 31, 2019, primarily due to the Ring Fence Expenditure on U.K. activities generated in the year.

Including remeasurements and exceptional items, we recorded an income tax credit of $96.0 million in the year ended December 31, 2020 compared to an income tax credit of $279.8 million for the year ended December 31, 2019, primarily due the Ring Fence Expenditure Supplement on U.K. activities generated in the year partially offset by a derecognition of undiscounted deferred tax assets following the reduction in our oil price assumptions. See "*—Explanation of income statement items—Impairment of oil and gas assets*".

Liquidity

We closely monitor and manage our funding position and liquidity risk throughout the year, including monitoring forecast covenant results to ensure we have 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 the hedging we undertake), production rates and costs.

Our liquidity requirements arise principally from our capital investment and working capital requirements. For the periods presented, we met our working capital requirements primarily from oil revenues from our producing assets and debt financing through ongoing drawings on the RBL Facility and through other debt financing.

We held cash and cash equivalents of $220.5 million, $222.8 million and $286.7 million as of December 31, 2019, 2020 and 2021, respectively, which included restricted cash of $2.3 million, $1.7 million and $9.7 million, respectively, and $74.0 million, $108.0 million and $181.7 million of ring-fenced funds held in joint venture operational accounts, respectively. We held cash and cash equivalents of $369.7 million and $275.0 million as of June 30, 2022 and June 30, 2021, respectively, which included restricted cash of $9.5 million and $30.7 million, respectively, and $276.7 million and $71.3 million of ring-fenced funds held in joint venture operational accounts, respectively. As of June 30, 2022, restricted cash includes $7.8 million on deposit relating to bank guarantees for our Malaysian assets and $1.7 million related to cash collateralized letters of credit.

As of June 30, 2022, after allowing for letter of credit utilization of $52.7 million, $97.3 million remained available for drawdown under the under the RBL Facility.

Cash flow

The following table sets forth group cash flow information for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

	For the year ended December 31,			For the six months ended June 30	
	2019	2020	2021	2021	2022
	(in millions of $)				
OPERATING ACTIVITIES					
Cash generated from operations	994.6	567.2	756.9	287.9	522.7
Cash received from insurance	—	—	0.7	—	8.3
Cash received/(paid) on sale/(purchase) of financial instruments	4.9	6.2	(0.3)	—	(0.1)
Decommissioning spend	(11.1)	(41.6)	(65.8)	(38.7)	(28.2)
Income taxes paid	(26.2)	(10.4)	(17.4)	(2.3)	(4.2)
Net cash flows from/(used in) operating activities	**962.3**	**521.4**	**674.1**	**246.9**	**498.4**
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(234.2)	(131.4)	(43.7)	(15.0)	(52.1)
Purchase of intangible oil and gas assets	(3.2)	—	(8.1)	(0.9)	(2.6)
Purchase of other intangible assets	—	—	(10.1)	—	—
Net cash received on termination of Tanjong Baram risk service contract	—	51.1	—	—	—
Repayment of Magnus contingent consideration — Profit share	(21.6)	(41.1)	(1.0)	(1.0)	—
Acquisitions	—	—	(258.6)	(3.0)	—
Interest received	1.2	0.8	0.3	0.1	0.3
Net cash flows (used in)/from investing activities	**(257.8)**	**(120.6)**	**(321.2)**	**(19.8)**	**(54.4)**
FINANCING ACTIVITIES					
Net proceeds of share issue	—	—	47.8	—	—
Proceeds from loans and borrowings	—	—	125.0	—	67.4
Repayment of loans and borrowings	(394.0)	(210.7)	(184.3)	(88.2)	(300.1)
Repayment of Magnus contingent consideration — Vendor loan	(52.7)	(20.7)	(73.7)	(11.4)	—
Shares purchased by Employee Benefit Trust	—	(1.2)	(0.6)	—	—
Repayment of obligations under leases	(135.1)	(123.0)	(136.7)	(57.3)	(59.3)
Interests paid	(146.0)	(43.0)	(63.0)	(15.8)	(52.5)
Other finance costs paid	(2.1)	(2.5)	—	(1.2)	—
Net cash flows from/(used in) financing activities	**(730.0)**	**(401.0)**	**(285.5)**	**(173.8)**	**(344.4)**
Net (decrease)/increase in cash and cash equivalents	**(25.6)**	**(0.2)**	**67.4**	**53.3**	**99.5**
Net foreign exchange on cash and cash equivalents	6.6	2.6	(3.6)	(1.1)	(16.4)
Cash and cash equivalents at January 1	237.2	220.5	222.8	222.8	286.7
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31	**218.2**	**222.8**	**286.7**	**275.0**	**369.7**
Reconciliation of cash and cash equivalents					
Total cash at bank and in hand	218.2	221.2	277.0	244.3	360.2
Restricted cash[(2)]	2.3	1.7	9.7	30.7	9.5
Cash and cash equivalents per balance sheet	**220.5**	**222.8**	**286.7**	**275.0**	**369.7**

(1) The cash flow statement as of December 31, 2020 has been restated to reflect a change in presentation of our statement of cash flows to reconcile to cash and cash equivalents per the balance sheet. See "*Presentation of financial and other information—Restatements—Presentation of our statement of cash flows*."

(2) As at June 30, 2022, restricted cash includes $7.8 million on deposit relating to bank guarantees for our Malaysian assets and $1.7 million related to cash collateralized letters of credit.

Net cash flows from/(used in) operating activities

Net cash flows from operating activities was $498.4 million for the six months ended June 30, 2022 compared to $246.9 million for the six months ended June 30, 2021. The increase in net cash flows from operating activities was primarily due to materially higher revenue.

Net cash flows from operating activities was $674.1 million for the year ended December 31, 2021 compared to $521.4 million generated for the year ended December 31, 2020. The increase in net cash flows from operating activities was primarily due to materially higher oil prices, partially offset by lower production in particular at Magnus and Kraken, as well as increased decommissioning spend and income taxes paid.

Net cash flows from operating activities was $521.4 million for the year ended December 31, 2020 compared to $962.3 million for the year ended December 31, 2019. The decrease in net cash flows from operating activities was primarily due to materially lower realized oil prices and a decrease in productions, partially offset by the reduction in operating expenditure.

Net cash flows (used in)/from investing activities

Net cash flows used in investing activities was $54.4 million for the six months ended June 30, 2022, compared to $19.8 million of net cash flows used in investing activities for the six months ended June 30, 2021. The net cash flows used in investing activities for the six months ended June 30, 2022 was primarily related to:

- Magnus well campaign;
- PM8/Seligi well campaign; and
- PM8/Seligi pipeline replacement project.

Net cash flows used in investing activities was $321.2 million for the year ended December 31, 2021, compared to $120.6 million of net cash flows used in investing activities for the year ended December 31, 2020. The net cash flows used in investing activities for the year ended December 31, 2021 was primarily related to:

- the Golden Eagle acquisition;
- Magnus production enhancement campaigns; and
- PM8/Seligi pipeline replacement

Net cash flows used in investing activities was $120.6 million for the year ended December 31, 2020, compared to $257.8 million for the year ended December 31, 2019. The net cash flows used in investing activities for the year ended December 31, 2020 was primarily related to:

- drilling activity at Kraken, with a new producer-injector pair coming on-stream;
- drilling activity at Magnus, with two new wells coming on-stream;
- reimbursement of net outstanding capital expenditure following termination of the Tanjong Baram small field risk service contract with PETRONAS; and
- payment of Magnus contingent consideration.

Net cash flows used in investing activities was $257.8 million for the year ended December 31, 2019. The net cash flows used in investing activities for the year ended December 31, 2019 was primarily related to:

- the completion of the drill centre 4 drilling program at Kraken;
- the drilling of two wells at the PM8/Seligi field in Malaysia and the start of drilling two new wells at Magnus;
- two subsea pipeline replacement projects at Scolty/Crathes and at the Dunlin bypass in respect of Thistle and the Dons.

Net cash from/(used in) financing activities

Net cash flows used in financing activities amounted to $344.4 million for the six months ended June 30, 2022 compared to $173.8 million in the six months ended June 30, 2021.

Net cash flows used in financing activities amounted to $285.5 million for the year ended December 31, 2021 compared to $401.0 million for the year ended December 31, 2020.

Net cash flows used in financing activities amounted to $401.0 million for the year ended December 31, 2020 compared to $730.0 million in the year ended December 31, 2019.

For a more detailed description of our recent financing activities, see "—*Financing*."

Capital investment

The primary objective of our capital management is to optimize the return on investment, by managing our capital structure to achieve capital efficiency while maintaining flexibility for the investment of additional capital where required. We regularly monitor the capital requirements of the business over the short, medium and long term, in order to enable us to better anticipate the timing of requirements for additional capital.

Cash capex represents investing activities on a cash basis, while cash capital and abandonment expense represents cash capex plus our cash spend on decommissioning activities. The following table sets forth a reconciliation of our reported net cash flows used in investing activities to cash capex and cash capital and abandonment expense for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 and 2021.

	For the year ended December 31,			For the six months ended June 30	
	2019	**2020**	**2021**	**2021**	**2022**
			(in millions of $)		
Reported net cash flows used in investing activities	(257.8)	(120.6)	(321.2)	(19.8)	(54.4)
Adjustments					
Purchase of other intangible assets	—	—	10.1	—	—
Repayment of Magnus contingent consideration – Profit share	21.6	41.1	1.0	1.0	—
Net cash received on Tanjong Baram risk service contract	—	(51.1)	—	—	—
Acquisition	—	—	258.6	3.0	—
Interest received	(1.2)	(0.8)	(0.3)	(0.1)	(0.3)
Cash capex	**(237.5)**	**(131.4)**	**(51.8)**	**(15.9)**	**(54.7)**
Decommissioning spend	(11.1)	(41.6)	(65.8)	(38.7)	(28.2)
Cash capital and abandonment expense	**(248.6)**	**(173.0)**	**(117.6)**	**(54.6)**	**(82.9)**

Capital investment has historically comprised the costs of construction of oil and gas facilities, the acquisition of interests in new assets and farm-ins to additional equity in existing assets, costs of technical services and studies, seismic acquisition and interpretation, and exploratory, appraisal, development and productivity enhancement drilling and well testing.

The following table sets forth our cash outflow on capital expenditure for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

	For the year ended December 31,			For the six months ended	
	2019	2020	2021	2021	2022
			(in millions of $)		
Kraken	102.9	60.8	3.4	0.5	4.4
Magnus	19.4	32.8	22.9	7.8	25.0
Golden Eagle	—	—	0.5	—	3.5
Other U.K. North Sea	102.1	33.5	9.1	3.1	11.4
Malaysia	13.0	4.3	14.8	3.9	8.9
Exploration and evaluation	0.1	—	1.1	0.5	1.5
Cash capex	**237.5**	**131.4**	**51.8**	**15.9**	**54.7**

Cash capex in the year ended December 31, 2021 principally related to Magnus production enhancement campaigns and the PM8/Seligi pipeline replacement.

Cash capex in the year ended December 31, 2020 principally related to drilling activity at Kraken and Magnus.

Cash capex in the year ended December 31, 2019 principally related to drilling at Kraken, Magnus and PM8/Seligi and our pipeline projects in the U.K. North Sea.

Cash capex in the six months ended June 30, 2022 principally related to well campaigns at Magnus and PM8/Seligi and the PM8/Seligi pipeline replacement project.

Cash capex in the six months ended June 30, 2021 principally related to Magnus well interventions and the PM8/Seligi pipeline replacement project.

Future capital investment

Our capital investments are largely focused on low-cost, short-cycle drilling projects to develop our existing material reserves and resource. Our 2022 capital expenditure program is primarily related to our return to drilling at our Magnus and PM8/Seligi fields, infill drilling at Golden Eagle and essential safety and maintenance related activities. As of June 30, 2022, we had entered into contracts in respect of $11.0 million of capital investments and we are expecting to have capital expenditure for the year ending December 31, 2022 of approximately $165.0 million, which cover the mentioned drilling program and maintenance activities, with cash abandonment expenditure of approximately $75.0 million.

Contractual obligations and contingent liabilities

The following table sets forth our remaining contractual maturity for our non-derivative financial liabilities with contractual repayment periods as of June 30, 2022. The table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which we could be required to pay including interest projected to be paid thereon.

	Payments due by period					
Contractual obligations	On demand	Up to 1 year	1-2 years	2-5 years	More than 5 years	Total
			(in millions of $)			
Loans and borrowings	—	66.5	50.0	—	—	116.5
Bonds(1)	—	86.4	1,015.6	43.9	169.9	1,315.8
Contingent considerations	—	58.4	127.6	183.8	427.2	796.8
Obligations under leases	—	144.7	126.2	308.1	42.7	621.7
Trade and other payables	—	400.3	—	—	—	400.3
Total	—	**756.3**	**1,319.4**	**535.8**	**639.8**	**3,251.3**

(1) Includes the 7% Retail Notes, the 9% Retail Notes and the Existing Senior Notes. Maturity analysis profile for the 7% Retail Notes and the 9% Retail Notes includes semi-annual coupon interest. For the 7% Retail Notes and the Existing Senior Notes, interest is only payable if the average dated Brent oil price is equal to or greater than $65.00/bbl for the six months preceding one month before the coupon date.

As is common within our industry, we have entered into various commitments related to the exploration and evaluation of, and production from, commercial oil and gas properties. As of December 31, 2019, 2020 and 2021, we had future capital commitments of $17.9 million, $nil and $1.9 million respectively. As of June 30, 2022, we had future capital commitments of $11.0 million. These amounts represent our obligations during the course of the following years to fulfill our contractual commitments. It is expected that such commitments will be met from cash from operations and other available liquidity without a material adverse effect on our financial position, results of operations or cash flows.

We also have potential liability for decommissioning our assets. We make full provision for the future costs of decommissioning our oil production facilities and pipeline systems on a discounted basis based on our decommissioning liability.

With respect to Heather, GKA, Thistle/Deveron, Magnus and PM8/Seligi, the decommissioning provisions are based on our contractual obligations rather than our working interest in the fields. We make decommissioning provisions on a working interest basis for Golden Eagle, the Dons, Broom, Alma/Galia, Alba, Kraken, Scolty/Crathes and part of the working interest in the SVT.

Our total provision represents the present value of decommissioning costs which are expected to be incurred up to 2048, assuming no further development of our assets. As of June 30, 2022, $322.7 million is expected to be utilized between one and five years (December 31, 2021: $409.6 million; December 31, 2020: $329.2 million; December 31, 2019: $155.6 million), $60.1 million within six to ten years (December 31, 2021: $81.4 million; December 31, 2020: $145.1 million; December 31, 2019: $339.8 million), and the remainder in later periods.

We enter into surety bonds principally to provide security for our decommissioning obligations. See "*—Financing—Letters of credit and surety bonds*".

These provisions have been created based on internal and third-party estimates. Assumptions based on the current economic environment have been made which we 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. We cannot assure you, however, that actual decommissioning costs will not be materially greater than our estimates. See "*Risk factors—Risks relating to our business—We may face unanticipated increased or incremental costs in connection with decommissioning obligations*." See also "*—Critical accounting estimates and judgments*."

Financing

Our liquidity requirements arise principally from our capital investment and working capital requirements. For the periods presented, we met our capital investment and working capital requirements primarily from oil sales revenues and the proceeds of debt financing. After the completion of this Offering, we expect to meet our liquidity requirements through cash generated from our operations and oil hedge proceeds.

Our actual financing requirements will depend on a number of factors, many of which are beyond our control, including the price of crude oil. See "*Risk factors—Risks relating to the Notes and our structure—Our leverage and debt service obligations could adversely affect our business, financial condition, results of operations and our ability to satisfy our obligations under our debt, including the Notes and the Note Guarantees*."

Equity financing

As of June 30, 2022, we had 1,885,924,339 million allotted and fully paid ordinary shares of 5 pence each.

Debt financing

Total debt as of June 30, 2022 amounted to $1,249.7 million.

As of June 30, 2022, drawings under the RBL Facility were $115.0 million and as of August 31, 2022, drawings outstanding had been further reduced to $90.0 million. On September 21, 2022, the outstanding drawings under the RBL Facility were repaid in full for $90.4 million, including $0.4 million of accrued and unpaid interest. Following the RBL Amendment, the RBL Facility will comprise $500.0 million of a revolving facility and the sublimit for drawings in the form of letters of credit is $75.0 million for up to seven years. We may draw funds under the RBL Facility if (i) no default or event of default has occurred or is occurring in the case of a rollover loan or letter of credit, or default in the case of any other utilization is continuing or would result from the utilization, (ii) the repeating representations are true in all material respects on the date of the utilization request and proposed utilization date, (iii) the projection which is due to be adopted by the most recent redetermination date has been so adopted (other than in the certain exceptions) and (iv) the aggregate amount of the proposed utilization will not exceed the applicable limits. See "*Description of certain financing arrangements—RBL Facility*."

As of June 30, 2022, the amount outstanding of the Existing Senior Notes was $827.2 million, which had been reduced to $792.3 million as of September 30, 2022, following a buy back and cancellation of $34.9 million Existing Senior Notes during July and August.

The following table sets forth information on our borrowings (including unamortized arrangement fees), as of June 30, 2022 on a *pro forma* basis after giving effect to the Transactions.

	Pro forma as of June 30, 2022	
	Current	**Non-current**
	(in millions of $)	
RBL Facility	—	400.0
SVT Working Capital Facility	8.3	—
7% Retail Notes	—	136.1
9% Retail Notes	—	163.1
Notes offered hereby	—	305.0
Total debt	**8.3**	**1,004.2**

The following table sets forth our remaining contractual maturity for debt (including unamortized arrangement fees) as of June 30, 2022, on a *pro forma* basis after giving effect to the Offering. The table has been compiled based on the undiscounted cash flows of financial liabilities on the earliest date on which we can be required to pay.

	Pro forma as of June 30, 2022
	(in millions of $)
Due within one year	8.3
Due within two to five years	136.1
Due after five years	868.1
Total	**1,012.5**

For a more detailed description of our financing arrangements, see "*Description of certain financing arrangements*."

Letters of credit and Surety bonds

We enter into surety bonds, letters of credit and guarantees principally to provide security for our decommissioning obligations. As of June 30, 2022, we held surety bonds totaling $230.2 million compared to $240.8 million, $151.7 million and $131.6 million as of December 31, 2021, 2020 and 2019, respectively.

We have also entered into a $50.0 million letter of credit in respect of contingent consideration on the Golden Eagle acquisition, expiring July 28, 2023.

We do not currently have letters of credit or surety bonds in respect of our other assets. See "*Risk factors—Risks relating to our business—We may face unanticipated increased or incremental costs in connection with decommissioning obligations*."

Qualitative and quantitative disclosures about market risk

Credit risk management

Credit risk refers to the risk that a counterparty will fail to perform or fail to pay amounts due, resulting in financial loss. We have a credit policy that governs the management of credit risk, including the establishment of counterparty credit limits and specific transaction approvals. We trade only with recognized international oil and gas operators. As of each of December 31, 2019, 2020 and 2021, we had trade receivables past due of $2.4 million, $2.6 million and $0.2 million, respectively. We had joint venture receivable past due but not impaired of $0.1 million, $2.5 million and $nil as of December 31, 2019, 2020 and 2021, respectively.

As of December 31, 2021, we had one customer accounting for 84% of outstanding trade and other receivables (2021: one customer, 84%; 2020: three customers, 77%; 2019: four customers, 84%). We sell our production lifted to buyers in ports in Northwestern Europe, the United States, the Mediterranean and/or Asia.

With respect to credit risk arising from our other financial assets, which comprise cash and cash equivalents, our exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

With respect to our decommissioning obligations, we are exposed to the risk of our commercial partners defaulting on their proportionate share of decommissioning costs once such costs became payable, which could result in us being required to bear such costs.

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 minimizing counterparty credit risks.

Liquidity risk management

Liquidity and refinancing risks refer to the risk that we will not be able to obtain sufficient financing from lenders and the capital markets to meet our working capital and project financing and refinancing requirements. We monitor our liquidity risk by reviewing our cash flow requirements on a regular basis relative to our existing bank facilities and outstanding debt instruments and the maturity profile of these facilities and instruments. We closely monitor and manage our liquidity requirements through the use of both short-term and long-term cash flow projections, supplemented by maintaining debt financing plans and active portfolio management. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by us), production rates and costs. In addition to our operating cash flows, portfolio management opportunities are reviewed to potentially enhance our financial capacity and flexibility. Ultimate responsibility for liquidity risk management rests with our board of directors, which has built a liquidity risk management framework which we believe to be appropriate for the management of all our funding and liquidity management requirements. Throughout the year ending and as of June 30, 2022, we were in compliance with all applicable financial covenant ratios agreed and managing ongoing compliance remains a priority. See "*Risk factors—Risks relating to the Notes and our structure—Our leverage and debt service obligations could adversely affect our business*, *financial condition*, *results of operations and our ability to satisfy our obligations under our debt*, *including the Notes and the Note Guarantees*."

Foreign currency risk management

We are exposed to foreign currency risk arising from movements in currency exchange rates. Our functional currency is the US dollar, primarily because we price our oil in US dollars; however, our operations are entirely outside the United States and the majority of our costs are denominated in currencies other than the US dollar. Additionally, our 7% Retail Notes and 9% Retail Notes are denominated in pounds sterling. As a result, we are exposed to both transactional and translational foreign exchange risk.

Our transactional foreign currency risk arises primarily from sales or purchases in currencies other than our functional currency, the US dollar. We manage this risk by converting US dollar receipts at spot rates periodically and as required for payments in other currencies. For the years ended December 31, 2019, 2020 and 2021, 6%, 8% and 18%, respectively, of our sales and 95%, 86% and 89%, respectively, of costs (including operating and capital expenditure and general and administration costs) were denominated in currencies other than the US dollar.

Additionally, our 7% Retail Notes and 9% Retail Notes require the payment of interest and principal in pounds sterling.

Our translational foreign currency exposure arises from the translation of assets and liabilities denominated in currencies other than US dollars. For example, in the six months ended June 30, 2022, a weaker GBP to USD exchange rate resulted in a $10.0 million lower revaluation of our 7% Retail Notes, 9% Retail Notes and sterling held cash balances. To mitigate the risks of substantial fluctuations in the currency markets, our hedging policy allows for up to 70% of the non-US dollar portion of our annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged.

We will continue to consider opportunities to enter into foreign exchange hedging contracts. The following table sets forth the impact on our pre-tax profit (due to change in the fair value of monetary assets and liabilities) of the variations in the US dollar to pound sterling exchange rate covered below.

	Pre-tax profit,	
	+10% dollar rate increase	−10% dollar rate decrease
	(in $ millions)	
December 31, 2019	(21.9)	21.9
December 31, 2020	(46.2)	46.2
December 31, 2021	(50.7)	50.7

We cannot assure you that our financial condition and results of operations will not be negatively affected by risks related to foreign currency movements. See "*Risk factors—Risks relating to our business— We are subject to both transactional and translational foreign exchange and inflation risks, which might adversely affect our financial condition and results of operations*."

Commodity price risk management

Oil price hedging

We are exposed to the impact of changes in Brent crude oil prices on our revenue and profits. Our policy is to have the flexibility 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. On a rolling quarterly basis, under the RBL Facility, we are required to hedge (i) a minimum of 45% of volumes of net entitlement production expected to be produced in the 12 months following the relevant quarter date and (ii) from the date 12 months after the relevant quarter date to the date 24 months after that date:

- if 75% or more of the facility is utilized on the relevant quarter date, 35% of volumes of net entitlement production expected to be produced;
- if less than 75% but 50% or more of the facility is utilized on the relevant quarter date, 25% of volumes of net entitlement production expected to be produced; and
- if less than 50% of the facility is utilized on the relevant quarter date, 15% of volumes of net entitlement production expected to be produced.

This requirement ceases at maturity of the RBL Facility.

As of June 30, 2022, we have hedged a total of approximately 3.4 MMbbls and approximately 3.5 MMbbls for the six months ended December 31, 2022 and June 30, 2023, respectively, with an average floor price of approximately $60/bbl and approximately $57/bbl, respectively, and an average ceiling price of approximately $79/bbl and $77/bbl, respectively. See "*Risk factors—Risks relating to our business—Our commodity hedging activities may not be effective*."

The following table sets forth the impact on our pre-tax profit of the variations in crude oil prices covered below, with all other variables held constant.

	Pre-tax profit,	
	+10% dollar rate increase	−10% dollar rate decrease
	(in $ millions)	
December 31, 2019	(22.9)	20.5
December 31, 2020	(8.0)	1.4
December 31, 2021	(91.8)	55.3

Commodity derivative contracts at fair value through profit or loss

Commodity derivative contracts are designated as at fair value through profit or loss, and gains and losses on these contracts are recognized as a component of revenue. These contracts typically include bought and sold call options, bought put options and commodity swap contracts.

The mark-to-market value of our open contracts as of June 30, 2022 was a liability of $161.8 million.

For the six months ended June 30, 2022, losses totaling $162.3 million were recognized in respect of commodity contracts designated as fair value through profit or loss. This included mark-to-market unrealized losses of $104.7 million.

For the year ended December 31, 2021, losses totaling $119.7 million were recognized in respect of commodity contracts designated as fair value through profit or loss. This included losses totaling $65.3 million realized on contracts that matured during the year ended December 31, 2021, and mark-to-market unrealized losses totaling $54.5 million.

The mark-to-market value of our open contracts as of December 31, 2021 was a liability of $55.2 million.

For the year ended December 31, 2020, gains totaling $2.7 million were recognized in respect of commodity contracts designated as fair value through profit or loss. This included losses totaling $6.1 million realized on contracts that matured during the year ended December 31, 2020, and mark-to-market unrealized gains totaling $8.8 million. Of the realized amounts recognized during the year ended December 31, 2020, a gain of $6.2 million was realized in adjusted business performance revenue in respect of the premium expense received on sale of these options. The premiums received are amortized into adjusted business performance revenue over the life of the option.

The mark-to-market value of our open contracts as of December 31, 2020 was a liability of $2.0 million.

For the year ended December 31, 2019, losses totaling $40.6 million were recognized in respect of commodity contracts designated as fair value through profit or loss. This included gains totaling $24.8 million realized on contracts that matured during the year, and mark-to-market unrealized losses totaling $65.4 million. Of the realized amounts recognized during the year, a gain of $4.9 million was realized in adjusted business performance revenue in respect of the amortization of premium income received on the sale of these options. The premiums received are amortized into adjusted business performance revenue over the life of the option.

The mark-to-market value of our open contracts as of December 31, 2019 was a liability of $10.8 million.

Interest rate risk management

Interest rate risk refers to the risk that market interest rates will increase, resulting in higher borrowing costs under our credit facilities which have floating interest rates, including the RBL Facility and the SVT Working Capital Facility, which have a SOFR and SONIA linked interest rate, respectively.

We may be affected by changes in market interest rates at the time we need to refinance any of our indebtedness. See "*Risk factors—Risks relating to the Notes and our structure—Certain of our borrowings bear interest at floating rates, which could rise significantly, thereby increasing our interest cost and reducing cash flow*."

Critical accounting estimates and judgments

This "*Management's discussion and analysis of financial condition and results of operations*" discusses our group financial statements, which have been prepared in accordance with IFRS. Accounting estimates are an integral part of the preparation of the financial statements and the financial reporting process and are based upon current judgments. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Certain accounting estimates are particularly sensitive because of their complexity and the possibility that future events affecting them may differ materially from our current judgments and estimates. See "*Risk factors—Risks relating to our business—Our tax liability is subject to estimation and we may be adversely affected by changes to tax legislation or its interpretation or increases in effective tax rates in the jurisdictions in which we do business*."

This listing of critical accounting policies is not intended to be a comprehensive list of all our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by IFRS, with no need for management's judgement regarding accounting policy. We believe that of our significant accounting policies, the following policies may involve a higher degree of judgement and complexity.

Climate change and energy transition

We recognize that the energy transition is likely to impact the demand, and hence the future price of, commodities such as oil and natural gas. In turn, this may affect the recoverable amount of property, plant and equipment, as well as goodwill in the oil and gas industry. We acknowledge that there are a range of possible energy transition scenarios that may lead to different outcomes for oil prices. There are inherent limitations with scenario analysis and it is difficult to predict which, if any, of the scenarios might occur.

We have assessed the potential impacts of climate change and the transition to a lower carbon economy in preparing our group financial statements, including our current assumptions relating to the demand for oil and natural gas and their impact on our long-term price assumptions. See "—*Recoverability of asset carrying values*."

While the pace of the energy transition to a lower carbon economy is uncertain, oil and natural gas demand is expected to remain a key element of the energy mix in the short- to medium-term based on the government's stated policies, commitments and announced pledges to reduce emissions. Therefore, given the useful lives of our current portfolio of oil and gas assets, a material adverse change is not expected to the carrying value of our assets and liabilities as a result of climate change and the transition to a lower carbon economy.

Management will continue to review price assumptions as the energy transition progresses and this may result in impairment charges or reversals in the future.

Recoverability of asset carrying values

Judgments

We assess each asset or cash-generating unit ("**CGU**") (excluding goodwill, which is assessed annually regardless of indicators) in each reporting period to determine whether any indication of impairment exists. Assessment of indicators of impairment or impairment reversal and the determination of the appropriate grouping of assets into a CGU or the appropriate grouping of CGUs for impairment purposes require significant management judgment. For example, individual oil and gas properties may form separate CGUs whilst certain oil and gas properties with shared infrastructure may be grouped together to form a single CGU. Alternative groupings of assets or CGUs may result in a different outcome from impairment testing.

Estimates

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the FVLCD and value in use ("**VIU**"). The assessments require the use of estimates and assumptions such as the effects of inflation and deflation on operating expenses, discount rates, capital expenditure, production profiles, reserves and resources and future commodity prices, including the outlook for global or regional market supply-and-demand conditions for crude oil and natural gas.

As described above, the recoverable amount of an asset is the higher of its VIU and its FVLCD. When the recoverable amount is measured by reference to FVLCD, in the absence of quoted market prices or binding sale agreement, estimates are made regarding the present value of future post-tax cash flows. These estimates are made from the perspective of a market participant and include prices, future production volumes, operating costs, capital expenditure, decommissioning costs, tax attributes, risking factors applied to cash flows and discount rates. Reserves and resources are included in the assessment of FVLCD to the extent that it is considered probable that a market participant would attribute value to them.

The estimates for assumptions made in impairment tests in 2021 and 2022 relating to discount rates and oil prices are discussed below. Changes in the economic environment or other facts and circumstances may necessitate revisions to these assumptions and could result in a material change to the carrying values of our assets within the next financial year.

Discount rates

For discounted cash flow calculations, future cash flows are adjusted for risks specific to the CGU. Fair value less costs of disposal discounted cash flow calculations use the post-tax discount rate. The discount rate is derived using the weighted average cost of capital methodology. The discount rates applied in impairment tests are reassessed each year and, in 2021, the post-tax discount rate was 10% (2020: 10%). The discount rate applied as at June 30, 2022 for impairment testing was increased to 11% following the market volatility in the first half of 2022 and the increase in interest rates.

Oil prices

The price assumptions used for fair value less costs to dispose ("**FVLCD**") impairment testing were based on the latest internal forecasts as at December 31, 2021, which assume short-term market prices will revert to our assessment of long-term oil price. These price forecasts reflect our long-term views of global supply and demand, including the potential financial impacts of climate change and the transition to a low carbon economy and are benchmarked with external sources of information such as analyst forecasts. Our price forecasts are reviewed and approved by management and challenged by the audit committee.

We revised our oil price assumptions for FVLCD impairment testing during the first half of 2022. These assumptions up to 2024 were increased to reflect the material increase in oil prices in the first half of 2022 following the Russian invasion of Ukraine and improved demand outlook. These assumptions, which represent management's best estimate of future prices, sit within the range of external forecasts and are considered by us to be broadly in line with a range of transition paths consistent with the Paris climate goals. However, they do not correspond to any specific Paris-consistent scenario. An inflation rate of 2% (2020: 2%) is applied from 2025 onwards to determine the price assumptions in nominal terms. Discounts or premiums are applied to price assumptions based on the characteristics of the oil produced and of the terms of the relevant sales contracts.

	Second half 2022	**2023**	**2024**	**2025>**
Brent oil ($/bbl)	100.0	90.0	80.0	60.0

The price assumptions used in 2021 were $75.0/bbl (2022), $70.0/bbl (2023), $70.0/bbl (2024) and $60.0/bbl real thereafter, inflated at 2.0% per annum from 2025.

Oil and natural gas reserves

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from our oil and gas properties. Our business is to enhance hydrocarbon recovery and extend the useful lives of mature and underdeveloped assets and associated infrastructure in a profitable and responsible manner. 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 our estimates of our 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. Economic assumptions used to estimate reserves change from period-to-period as additional technical and operational data is generated. This process may require complex and difficult geological judgments to interpret the data.

We use 2P Reserves as the basis for calculations of expected future cash flows from underlying assets because this represents the reserves management intent to develop and it is probable that a market participant would attribute value to them. Independent third-party audits of our reserves and resources are conducted annually.

Sensitivity analysis

We tested the impact of a change in cash flows in FVLCD impairment testing arising from a 10% reduction in price assumptions.

Price reductions of this magnitude in isolation could indicatively lead to a reduction in the carrying amount of our oil and gas properties by approximately $244.0 million, which is approximately 9% of the net book value of property, plant and equipment as at June 30, 2022. Price increases could indicatively lead to an increase in the carrying amount of oil and gas properties by approximately $202.2 million.

The oil price sensitivity analysis above does not, however, represent our best estimate of any impairments that might be recognized 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.

We also tested the impact of a one percentage point change in the discount rate used for FVLCD impairment testing of oil and gas properties. If the discount rate was one percentage point higher across all tests performed, the net impairment reversal recognized in the six months ended June 30, 2022 would have been approximately $34.6 million lower. If the discount rate was one percentage point lower, the net impairment reversal recognized in the six months ended June 30, 2022 would have been approximately $37.7 million higher.

Goodwill

Irrespective of whether there is any indication of impairment, we are required to test annually for impairment of goodwill acquired in business combinations. As of June 30, 2022, we carried goodwill of $134.4 million on our balance sheet (December 31, 2021: $134.4 million), principally relating to the Magnus oil field transactions.

Provisions

Estimates

We incur decommissioning costs at the end of the operating life of some of our oil and gas production facilities and pipelines. We assess our decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost 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 and experience at other production sites. 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.

The timing and amount of future expenditures relating to decommissioning and environmental liabilities are reviewed annually. The interest rate used in discounting the cash flows is reviewed half-yearly. The nominal interest rate used to determine the balance sheet obligations at the end of June 2022 was 2% (end of 2021: 2%). The weighted average period over which decommissioning costs are generally expected to be incurred is estimated to be approximately ten years. Costs at future prices are determined by applying an inflation rate of 2% (end of 2021: 2%) to decommissioning costs.

Changes in assumptions in relation to our provisions could result in a material change in their carrying amounts within the next financial year. A 0.5% decrease in the nominal discount rate applied could increase our provision balances by approximately $40.9 million as of December 31, 2021 (2020: $38.4 million). The pre-tax impact on our income statement would be a charge of approximately $5.9 million as of December 31, 2021.

Intangible assets

Judgments

The application of our accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely from either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

INDUSTRY AND MARKET DATA

Certain of the projections and other information set forth in this section have been derived from external sources including Offshore Energies UK (formerly known as Oil & Gas U.K., a non-profit organization and the leading representative body for the UK offshore oil and gas industry, whose members comprise oil and gas companies with active operations in the UKCS), the U.S. Department of Energy, the U.S. Energy Information Administration, IMF World Economic Outlook, the International Energy Agency Oil Market Report, the BP Statistical Review of World Energy, the BP Energy Outlook, the European Commission website, the U.K. government website (www.gov.uk), OPEC World Oil Outlook and Monthly Oil Reports, and the North Sea Transition Authority (formerly known as Oil and Gas Authority), the International Energy Agency Key World Energy Statistics 2021 report and Global Energy Review 2021 and 2022, Intermittency and the Associated Integration Challenges: A Comprehensive Review Including the Status in the Belgian Power System, Energies 2021 and EMIS Insights Industry Report and Energies 2021 and 2022. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. We believe that these industry publications, surveys and forecasts are reliable, but we have not independently verified them and cannot guarantee their accuracy or completeness.

The projections and forward-looking statements in this section are not guarantees of future performance and actual events and circumstances could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See "Risk factors" and "Forward-looking statements."

Introduction

Global oil markets continued their strong recovery to pre-COVID-19 levels for most of the first half of 2022, although there are signs of slowing growth in the world economy and oil demand. Global output decreased in the second quarter of 2022 as a result of downturns in China and Russia, while US consumer spending did not meet expectations. Inflation is anticipated to reach 6.6% in advanced economies and 9.5% in emerging markets and developing economies this year. In 2023, disinflationary monetary policy is expected to impact the global economy, with global output growing by just 2.9%. *(International Monetary Fund, World Economic Outlook Update January 2022, OPEC Monthly Oil Report July 2022).*

The oil market has been dominated by elevated price volatility since March 2022, fueled by Russia's invasion of Ukraine. Tight oil product markets, specifically for diesel and gasoline, and sanctions on Russian oil by some major oil-consuming countries have sharply raised the risk premium in oil prices, particularly for Brent. (*OPEC Monthly Oil Market Report, August 2022*).

Crude oil spot prices declined significantly in July, following two consecutive months of sharp rises. The international spot benchmark "North Sea Dated" dropped nearly $11/bbl compared to the prior month. Oil prices also came under pressure as a result of a sharp decrease in refining margins, including margins for gasoline, in the major hubs. (*OPEC Monthly Oil Market Report, August 2022*).

Russia's isolation following its invasion of Ukraine is deepening as Western Countries consider tougher sanctions, including a full phase out of oil imports from the country. In response to the global energy market disruption caused by Russia's invasion of Ukraine, the European Commission presented the REPowerEU Plan in May 2022. The Plan's objectives are to end EU's dependence on Russian fossil fuels and help accelerate the transition to green energy. EU's REPowerEU plan aims to reduce Russian gas imports by two-thirds by the end of 2022 through energy savings, diversification of energy supplies and accelerated roll-out of renewable energy. (*European Commission – REPowerEU: A plan to rapidly reduce dependence on Russian fossil fuels and fast forward the green transition*).

Oil demand and supply outlook—overview

Global oil demand in 2022 is expected to rise by 3.1 mb/d. Growth is expected to be led by the non-OECD region, which saw a year-on-year increase of 1.5 mb/d (or 2.84%), led by China and India. Year-on-year oil demand in the OECD region also rose by 1.6 mb/d (or 3.63%). *(OPEC Monthly Oil Market Report – August 2022).*

In the OECD region, the Americas saw the largest growth with an increase of 0.89 mb/d, mainly driven by strong LPG requirements from the industrial, commercial and residential sectors. In OECD Europe, 2022 oil demand is expected to moderately grow by 0.6 mb/d year-on-year, with the growth being weighed down by a weakening economy. Oil demand in OECD Asia Pacific is forecast to remain relatively flat, growing by 0.13 mb/d year-on-year. In the non-OECD region, India and Middle East's oil demand is expected to show the strongest growth, with a 7.73% and 4.69% year-on-year increase, respectively, supported by a healthy macro growth, the lifting of COVID-19 restrictions and an easing of trade-related bottlenecks. Expectations for economic growth, combined with improvements in the containment of COVID-19 in China, are expected to boost global consumption of oil in 2023 with demand projected to reach 102.72 mb/d. *(OPEC Monthly Oil Market Report – August 2022).*

Non-OPEC liquids supply in 2022 is expected to average at approximately 65.8 mb/d, reflecting a year-on-year growth of 2.1 mb/d. In the US, rising oil and gas rig counts, as well high fracking activity, are expected to support production. However, ongoing capital discipline by public operators, labor and supply chain issues, as well as cost inflation, are headwinds to growth. US liquids output is forecast to grow by 1.15 mb/d year-on-year. The sanctioning by Western buyers of Russian commodities in response to the invasion of Ukraine has impacted Russian supply in the global market. A successful outcome of international talks with Iran could result in the lifting of U.S. sanctions on the country's exports, gradually bringing 1.3 mb/d of Iranian oil back into the market and easing the impact of potential supply concerns from Russia. Nevertheless, negotiations between Tehran and Western countries to revive the 2015 nuclear deal are currently at a standstill. *(OPEC Monthly Oil Market Report – August 2022, IEA – Oil Market Report – May 2022).*

Oil demand and supply outlook—impact of renewables sector

Demand for renewables grew by 3% in 2020 and increased across all key sectors—power, heating, industry and transport—in 2021. The power sector was the most significant, with its demand for renewables expanding by more than 8% to reach 8,300 Terawatt-hour ("**TWh**"), the largest year-on-year growth on record in absolute terms. Solar photovoltaics ("**PV**") and wind are expected to contribute to two-thirds of renewables' growth, while the share of renewables in electricity generation increased to almost 30% in 2021, their highest share since the beginning of the Industrial Revolution and up from less than 27% in 2019. Wind energy is also on track to record the largest increase in renewable generation, with a growth of approximately 275 TWh, or around 17%, from 2020. Solar PV electricity generation rose by 145 TWh, or almost 18%, and approached 1,000 TWh in 2021. (*International Energy Agency*, *Global Energy Review 2021*).

Energy demand and emissions bounced back to around pre-pandemic levels in 2021, reversing the temporary reduction in 2020 due to the COVID-19 pandemic. In line with the long-run transition towards cleaner, lower carbon energy, renewable energy sources, including biofuels but excluding hydro, increased by around 5.1 EJ in 2021, an annual growth rate of 15%. Despite the strong growth, as an overall proportion of global primary energy renewable energies remain fairly small, with only an approximate 13% market share, and remain unlikely to overtake the more established energy sources, including oil and gas, for some time. The intermittent nature of renewable energies is also a hindrance for their high penetration in the electrical grid and results in some challenges for power system reliability and stability, such as overvoltage and voltage unbalances in the distribution network. Energy storage technology is still nascent, and with security of supply concerns heightened, fossil fuels will be critical to supporting stable generation. (*BP Statistical Review of World Energy 2022; Intermittency and the Associated Integration Challenges: A Comprehensive Review Including the Status in the Belgian Power System, Energies 2021*).

The speed of development and adoption of new cost-competitive technologies, along with political will, are expected to continue to be factors in the ability to meet climate change targets, such as those set at the 2015 United Nations Climate Change Conference in Paris. One such development has been the increasing sales of electric vehicles ("**EVs**"). Driven by declining battery costs and increased government support, battery electric and plug-in hybrid electric vehicles continue to penetrate the market, particularly in the OECD region and China. In 2012, 120,000 EVs were sold worldwide. In 2021, 10% of global car sales were electric, four times more than in 2019. Latest estimates indicate that the total number of EVs on the world's roads is approximately 16.5 million, triple the amount of 2018. Global EVs sales continue to be strong also in 2022, with 2 million units sold in the first quarter of 2022, a growth of 75% compared to the same period in 2021. China remains the biggest contributor to this growth, accounting for approximately 50% of the total growth with 3.3 million of EVs sold in 2021. Sales in Europe and United States showed continued robust growth (2.3 million and 630,000, respectively). (*International Energy Agency Global EV Outlook 2022).*

The first quarter of 2022 showed similar trends on EVs sales, with sales in China accounting for a large part of the global growth and more than doubling compared with the first quarter of 2021. There was also a 60% and 25% sales increase in the United States and Europe, respectively. Although electric car sales accounted for less than 5% of global car sales in 2020, the growth in EVs adoption may impact diesel, gas and oil demand in the long-term, as road transport accounted for 49% of oil consumption in 2019. (*OPEC World Oil Outlook 2021; International Energy Agency Global EV Outlook 2022; International Energy Agency Key World Energy Statistics 2021*).

Impact of Russia and Ukraine Conflict

After the invasion of Ukraine by Russian troops on February 24, 2022, oil prices surged by \$8/bbl to \$105/bbl, due to expectations that sanctions by Western Countries against Russia would cripple Russia's energy exports. The Russia-Ukraine conflict has brought energy supplies' security to the top of Western Countries' agendas, with expectations being that western European and U.K. governments will encourage additional oil and gas developments, storage and production to offset Russian supply.

In response to Russian recognition of the Donetsk People's Republic ("**DPR**") and Luhansk People's Republic ("**LPR**") and the deployment of peacekeeping troops to the region, the first wave of U.K. sanctions was announced on February 22, 2022 targeting five Russian banks and three Russian oligarchs associated with the Kremlin. The U.K. Government announced a second comprehensive set of sanctions on February 24, 2022, developed with international partners and allies. The measures ban key Russian industries and companies from the U.K.'s financial, clearing and currency markets. Additionally, an asset freeze was imposed on several major Russian financial institutions, preventing them from accessing the assets they hold in the U.K. Trade restrictions were also strengthened, with a ban on the export of critical technologies and components to Russia's electronics, telecommunications and aerospace sectors. Also, under new banking restrictions, Russian nationals were banned from having more than £50,000 in savings in U.K. banks accounts. At the end of July 2022, the U.K. Government expanded the designation criteria for those who could be subject to sanctions. Under the new criteria, immediate family members of designated individuals and the management (as opposed to just senior management) of Russian state-controlled enterprises, or businesses benefitting from supporting the Russian Government, can now be targeted. The United States passed similar sanctions to the U.K., and announced a ban on the import of Russian oil, liquefied natural gas and coal on March 8, 2022. *(Sanctions against Russia - UK House of Commons Library).*

Russia is the world's third largest oil producer behind the United States and Saudi Arabia, the world's largest exporter of oil to global markets and the second largest crude oil exporter behind Saudi Arabia. In January 2022, Russia's total oil production was 11.3 mb/d, of which 10 mb/d was crude oil, 960 kb/d condensates and 340 kb/d NGLs. *(International Energy Agency, February 2022).*

March 2022 data shows a significant decline in demand of Russian oil. Total oil consumption dropped by 150 kb/d month-on-month (compared to normal seasonal changes of 20 kb/d), Jet/kerosene by 30 kb/d and fuel oil by 40 kb/d. Jet fuel demand was partly insulated by the near trebling of Russian military consumption from 30 kb/d in January to almost 90 kb/d in early April. Gasoil and gasoline demand both exceeded expectations in March, despite demand being substantially flat for both products. Total 2022 oil demand is expected to be 240 kb/d lower year-on-year at 3.4 mb/d. Nevertheless, the outlook for 2022 remains grim. (*IEA – Oil Market Report – May 2022).*

Russian oil production plunged during April as the country's refiners processed much less crude due to slower products exports and falling domestic demand. Total output of crude oil, condensates and NGLs tumbled 960 kb/d month-on-month to 10.4 mb/d in April, the lowest level since November 2020. Supply of crude oil declined by 900 kb/d to 9.1 mb/d. The EU, with an approximately 43% share, remained the largest market for Russian oil exports in April 2022, compared to a 50% market share the year before. The United States and U.K. accounted for approximately 9% of Russian oil's market share combined. These falls were partially compensated by an increase in exports to India and Turkey. *(IEA – Oil Market Report – May 2022, International Energy Agency, February 2022).*

Russia has been reducing its piped gas supplies to the EU market and not filling its storage sites in Europe to adequate levels. Pipeline deliveries from Russia to OECD Europe declined by 33% year-on-year in the first 6 months of 2022. Lower Russian pipeline flows to Europe have been compensated in part by LNG inflows, which increased by 60% year-on-year in the first six months of 2022. LNG inflows to the European Union and the United Kingdom reached an all-time high of 13 bcm in January 2022, almost three times the prior year's levels. *(International Energy Agency, February 2022; IEA – Gas Market Report – Q3 2022).*

OECD Europe's domestic gas production is expected to increase by 3% in 2022, driven by higher output in Norway and the U.K. Higher storage injection needs are set to provide strong support for imports in the second half of 2022. Considering available capacities, and assuming that Nord Stream flows will remain at

63 mcm/d, Russian piped gas flows are expected to fall by 40% year-on-year in 2022, largely compensated by higher LNG inflows, up by over 45%. *(IEA – Gas Market Report – Q3 2022).*

Unlike other countries in Europe, the U.K. is not dependent on Russian gas supply. Great Britain's diverse supply sources include pipelines from the UK and Norway continental shelf, interconnectors with the continent, and three LNG terminals, providing Britain with one of the largest LNG import infrastructures in Europe. In addition to that, there are no gas pipelines directly linking the U.K. with Russia and imports from Russia made up less than 4% of total U.K. gas supply in 2021. *(Russia-Ukraine and UK energy: Factsheet - GOV.UK).*

The UKCS

Introduction

The UKCS can be broadly divided into five main areas: the Central North Sea, the Northern North Sea, the Southern Gas Basin, the West of Britain and the Atlantic Margin. Amoco discovered the first oil in the U.K. sector of the North Sea in 1969 in what is now the Arbroath field, with the first U.K. offshore oil production commenced in June 1975 from the Argyll field. After early exploration success, the surge in activity led to more than 40 billion boe produced by the beginning of the 1980s.

UKCS outlook

The COVID-19 pandemic and the war in Ukraine impacted offshore activities in the UKCS, with drilling activity falling by half and new project approvals at record lows, as companies reduced offshore personnel levels to help manage COVID-19 exposure risk. UKCS oil and gas production was just over 494 million boe (1.35 million boe/d) in 2021, implying a decline of 17% year-on-year. Overall, this was equivalent to 82% of domestic oil consumption and 38% of gas consumption, showing the UK's reliance on imports to meet demand. This trend is expected to continue throughout the coming years and decades as domestic resources decline at a faster rate than demand falls. (*OEUK – Business Outlook 2022).*

Following a period of relatively stable output, production declined in the 2020/2021 period due to lower investment and a number of significant planned production outages, including a three-week closure of the Forties Pipeline System ("**FPS**"), the UKCS' largest oil pipeline, between May and June 2021 and other pipeline and processing systems linked to FPS, such as the Graben Area Export Line. While lower production is normal on the UKCS in summer, daily output reduction was more than 40% between March and June 2021. (*Oil & Gas UK Business Outlook 2022).*

2021 production was 106.9 Mtoe, a 14% decrease from 2020 and the lowest level in over 50 years. Production levels for all fuels except bioenergy and waste are down from 2020 due to delayed oil & gas maintenance activities as a result of COVID-19, outages on the UK nuclear feet and less favorable weather conditions for renewables technologies. *(Energy Trends, GOV UK – March 2022).*

Despite low energy consumption in 2021, domestic demand was higher than usual as people continued to spend more time at home. Oil stocks decreased by 32% in December 2021 (year-on-year), mostly driven by international stock reduction, following the changes to the U.K. oil stocking protocol in January 2021 and the end of the EU-exit transition period. However, oil stocks in the UK still remain above levels mandated by the International Energy Agency ("**IEA"**). *(Energy Trends, GOV UK – March 2022).*

UK gas demand rose by 5.4% in 2021, reaching 854 TWh. The increase was underpinned by the easing of lockdown restrictions and the growing demand for electricity, as well as the reduced generation from nuclear and renewables sources. Gas production, on the contrary, reached a record low of 363 TWh in 2021. This result, which represents a 17% fall year-on-year, was largely the result of scheduled maintenance, including the FPS shutdown. Net imports increased by 30% to meet demand in the face of low production, with exports down by over 29%, the lowest level since 1998. The U.K.'s principal source of imports during the period remained Norway, accounting for 39% of supply and 64% of total imports. *(Energy Trends, GOV UK – March 2022).*

Despite the reductions in overall consumption, the relative importance of oil and gas within the energy mix has remained consistent since 2000, with annual average of 33% for oil and 39% for gas. Offshore Energies U.K. (formerly known as Oil & Gas U.K.) expects sufficient production to come on stream from new fields this year to maintain output in line with 2021, which will help limit any increases in import dependency in the short term. It is expected that ten fields will start up in 2022 and early 2023 which, combined with the fields that started producing in late 2021, will bring around 450 MMboe of new reserves (roughly 50:50 split between oil and gas) and peak production rates of around 250,000 boe/d. This production would be enough to offset the declining production from existing assets, keeping total production from the basin relatively stable throughout 2022 and 2023. (*OEUK – UK Business Outlook 2022).*

Capital investment

Offshore Energies U.K. expected up to ten new fields to commence production between 2022 and early 2023, which combined with the fields that started producing in late 2021, will bring around 450 MMboe of new reserves (50:50 split between oil and gas) and peak production rates around 250,000 boe/d. However, lower rates of new investment in recent years will result in less production coming on stream in the upcoming period. New fields gaining regulatory approval in 2020 unlocked just under 40 MMboe of new resources—less than one-third of approvals in 2019 and 85% lower than 2018. (*OEUK – UK Business Outlook 2022, OEUK – UK Business Outlook 2021).*

There are a range of opportunities being considered for investment approval in 2022 and 2023, but they are contingent on greater market stability and continued regulatory and government support. These projects could bring up to £3.5 billion in new investments and unlock in the region of 300 MMboe of new reserves, representing a significant opportunity to help manage the basin's production profile but it will take time before they begin to make a significant contribution to UKCS output. (*OEUK – UK Business Outlook 2022, OEUK – UK Business Outlook 2021*).

The level of capital invested in the basin typically follows commodity price trends, with periods of higher prices associated with the UKCS' ability to attract greater levels of investment. For example, each of 2013 and 2014 saw capital investment reach over £16 billion (in 2020 terms) following annual Brent price highs of between \$120/bbl and \$140/bbl during the preceding years. During these times, companies benefited from greater levels of cash generation and looked to sanction projects which may have more challenging economics at lower prices. Declines in investment have generally lagged the onset of price falls by 12 to 24 months. However, the dramatic nature of the 2020 price decline coupled with the relatively low level of new investment approvals in recent years led to a sharper and faster investment decline. (*OEUK – UK Business Outlook 2021*).

Creating a more diverse energy system will require significant capital expenditure across a range of sources, including oil and gas, offshore wind, hydrogen and carbon capture. Between 2022 and 2030 OEUK estimates that there could be between £200 billion and £250 billion of private sector investments in new projects and operating expenditure. Within this range, it is likely that around 40% of expenditures will be on managing oil and gas related activity and 60% on the scale up of lower-carbon energy sources. (*OEUK – UK Business Outlook 2022).*

Exploration & appraisal drilling

Exploration drilling peaked in 1990 at approximately 150 wells before steadily declining to current levels. Appraisal drilling has seen a gradual decline since 1990, falling steadily over the last decade to current levels. Overall, only 66 wells spudded in 2021: 56 development, five exploration and five appraisal wells. The five exploration wells drilled in 2021 represent the lowest number since 1965. Yet, despite the low level of activity, the recent track record of successful finds continued in those which were drilled, including the Isabella well and the Losgann well. OEUK expects about a 10% increase in development and exploration drilling in 2022, despite the uncertainty surrounding the specific schedules of some projects. (*OEUK – UK Business Outlook 2022, OEUK – UK Business Outlook 2021*).

Decommissioning

The total estimated cost of decommissioning UKCS upstream oil and gas infrastructure has fallen by £1.5 billion to £44.5 billion in 2022, representing an overall decrease of about £15 billion (or 25%) since the baseline forecast and cost reduction target was introduced in 2017, despite COVID-19 and the economic environment. The scale of this reduction is also reflected in the actual costs of completed projects, which are on average 20 to 25% lower than the initial forecasts. As of July 2022, the UKCS has approximately 700 inactive development (suspended platform and subsea) wells and a further 1,000 wells are forecast to become inactive between 2022 and 2026. Both the short-medium term and long-term outlook for inactive wells reflects a substantial volume of work to come at an average rate of 150 to 200 wells per annum over the next two decades. *(UKCS Decommissioning Cost Estimates 2022).*

Decommissioning work to be executed over the next decade includes 1,317 platform, 676 subsea and 139 open water suspended wells, 126 topsides and substructures removals respectively, and 14 FPSO removals. The average cost of well decommissioning over the coming decade is forecast to be 30% and 25% lower for platform and subsea wells, respectively, compared to the average actual cost between 2017 and 2021. *(UKCS Decommissioning Cost Estimates 2022).*

Government measures to encourage activities

Around £390 billion of capital has been invested on the UKCS over the last 50 years (2020 prices), enabling the production of 46 billion boe of oil and gas. Over £100 billion of this has been invested since 2010, although investment levels have generally been in decline since the middle of the previous decade, on the back of record investment levels and following the price downturn between 2014 and 2017.

The contraction in investment seen by the U.K.'s oil and gas industry has been larger than that seen across the sector globally, which Rystad Energy estimates shrank by 27% last year. It is also greater than that seen by other sectors of the U.K. economy; for example, overall U.K. business investment in early 2020 fell by 17% compared to overall U.K. business investment before the pandemic. Offshore Energies U.K. has visibility of around £21 billion of potential capital within exploration and production ("**E&P**") plans between 2021 and 2025, which would unlock 2.7 billion boe over the production period, however less than one-third of this (£6.6 billion) has been fully committed by companies.

The structure of the UKCS fiscal system means that direct tax payments correlate strongly with the cash flow of companies. In recent years, HM Treasury has recognized the maturity of the basin and the need to reward investment in the UKCS at all stages of the industry life cycle and that, to maximize investment, the overall tax burden facing the industry needed to be reduced. Since its launch, the Driving Investment Strategy has provided certainty by offering a predictable fiscal environment upon which to base long-term investment decisions. The basin has also seen tax rates fall, helping to ensure that post-tax rewards on the UKCS remain competitive with other investment opportunities around the world.

The Maximizing Economic Recovery Strategy for the U.K. ("MER")

The MER was drafted in accordance with section 9A(2) of the Petroleum Act 1998, and imposes to the Secretary of State to produce one or more strategies for enabling the principal objective of maximizing the economic recovery of U.K. petroleum with the following high-level principles:

- All stakeholders should be obliged to maximize the expected net value of economically recoverable petroleum from relevant U.K. waters, not the volume expected to be produced;
- Compliance with the MER is intended to lead to investment and operational activities that, on an expected basis, add net value overall to the U.K.;
- Compliance with the MER may oblige individual companies to allocate value between them, matching risk to reward. However, while the net result should deliver greater value overall, it will not be the case that all companies will always be individually better off;
- Compliance with the MER will not lead to any individual company investing in a project or operating existing assets where there is not a satisfactory expected commercial return on that investment or activity. Such a return does not necessarily mean a return commensurate with the overall corporate return on their portfolio of investment (e.g. a low risk investment could give low returns);
- In determining whether something is consistent with the principal objective the U.K. Regulator will need to balance the benefit of economic recovery of petroleum with the need to maintain the confidence of new and current investors to invest in exploration and production of petroleum from relevant U.K. waters, taking into account market conditions at the time of making its determination.

Transferable tax history ("TTH")

The Finance Act 2019 enacted TTH for UKCS asset deals approved by the U.K. Regulator on or after November 1, 2018. TTH provides an additional tool in the deal toolkit to move late-life assets into the hands of those that are best suited to prolong the life of the field.

Key features of TTH:

Optional joint election between a buyer and a seller

- Seller can transfer some of its historical profit chargeable to RFCT/SC (profits on which actual cash tax was paid in the past, represented as a "TTH Amount" so the buyer can utilize losses arising on decommissioning expenditure by offsetting them against such TTH Amount).

    - The TTH Amount is subject to commercial negotiation between the seller and the buyer, and is capped at the lower of (i) an uplifted estimated cost to decommission per a decommissioning security agreement and (ii) the seller's eligible historical ring fence profits from April 17, 2002.

- Buyer to track the profits of the acquired field as a shadow calculation to the annual tax return.

    - TTH needs to be activated before the TTH Amount becomes part of a buyer's tax history. This requires the field to cease production, and for the buyer to incur a net loss after decommissioning.

Energy Profits Levy ("EPL")

In response to the rising cost of energy, the UK government has introduced a new tax, the Energy Profits Levy ("**EPL**"). The EPL adds a new 25% tax to the existing ring fence corporation tax ("**RFCT**") and supplementary charge ("**SC**") that is levied on North Sea oil and gas production.

To incentivize new investments, an investment allowance equal to 80% of capex is allowed as an extra deduction for EPL. This is comparable to the 62.5% investment allowance available for SC but is available immediately, whereas the SC allowance can only be claimed once income is received from the field. The net effect of these allowances is that investors will receive 91.25% tax relief on any new capex incurred before the end of 2025. *(U.K. Government – Energy Profits Levy factsheet – May 2022).*

Decommissioning relief deeds ("DRD")

The DRD is a contract between the Government and companies operating in the UKCS. It provides companies with certainty as to their entitlement to tax relief on future decommissioning costs. The DRDs provide this certainty if:

- Decommissioning tax relief available is reduced in the future compared to the 2013 position due to a change in tax law (not a change in tax rates)

- A company has to pick up another company's decommissioning liabilities, as it defaulted on its own liabilities

(*Oil & Gas U.K. Economic Report 2021, Oil & Gas U.K.*; *Decommissioning Insight Report 2021 Oil & Gas U.K. Economic Report 2021*).

Energy Transition and ESG in the United Kingdom and UKCS

Oil and gas will continue to have a key role to play in an increasingly diverse energy mix and it is important that domestic production continues in line with this to support energy security. In addition, the sector will also make a major contribution to the transition to net zero, with many of the skills, expertise and technologies held within the oil and gas industry crucial in the development of net zero solutions at scale. Within that scenario, oil and gas are projected to provide around 70% of U.K. energy over this decade (2020s), around 50% in the next decade (2030s) and around 28% in the 2040s. By 2050, the CCC (U.K. Climate Change Committee) forecast assumes that demand for oil products falls by 85%– an average yearly decline of 6.1%–

while gas consumption will have fallen by 76%. In the balanced net zero scenario, gas would still be supporting 15% of the energy demand in 2050, albeit decarbonized or otherwise used with a net zero carbon impact.

There has been a growing focus from investors on reporting of ESG metrics and alignment with UN sustainable development goals. In particular, this has centered on environmental impacts of business operations in the context of net zero and the COVID-19 pandemic impact on social risks. Attention to ESG reporting has been driven by changing investor appetite in recent years and is an increasingly common element in many of the industry's financial reports. Offshore Energies U.K. expects the focus of both the private and public sectors on sustainable finance to continue to grow.

The oil and gas industry in the United Kingdom was one of the first industrial sectors to welcome the commitments to net zero. For the sector, the focusing of investor expectations particularly regarding environmental factors creates an audience for operators to showcase their ongoing commitments and progress towards emission reduction targets, outlined as part of Roadmap 2035 launched in September 2019, which outlines the contribution the sector can make throughout the transition. The key themes within Roadmap 2035 are:

- helping meet energy needs in the United Kingdom;
- supporting net zero;
- developing people and skills;
- driving technology and innovation; and
- growing the economy and exports.

Whilst securing investment continues to be at the discretion of the investor, industry has been engaging in a cross-sector taskforce to produce a set of guidance on common metrics to suit user and issuer expectations. Good progress has been made since the launch of Roadmap 2035 including but not limited to the development of production emissions targets, launch of the Diversity & Inclusion Task Force, the establishment of the National Decommissioning Centre and the upcoming National Subsea Centre. There are very significant opportunities for oil and gas companies and their supply chain to diversify across the energy landscape. Developments in new technologies are progressing across the United Kingdom, from Shetland to South Wales.

In early 2021, the U.K. oil and gas industry reached the flagship North Sea Transition Deal ("**NSTD**") with the U.K. Government. The NSTD is a transformational partnership between the U.K. government and the U.K. oil and gas industry, which will harness the expertise of the industry to meet the country's urgent climate ambitions of net zero emissions by 2050. One of the key performance indicators for the deal is for 50% U.K. content over the lifecycle of all related new energy projects, as well as oil and gas decommissioning, including 30% locally provided technology. This will help accelerate the energy transition and reduce emissions across the United Kingdom. Alongside this, it will help to open up new markets for the domestic supply chain to service at home and abroad.

With emission considerations also now playing a part in contract wins, opportunities for reducing emissions during decommissioning could be better understood by having readily available data on the emission intensities of decommissioning activities. Continuing to strive for cost effective decommissioning will also release additional capital that can be invested in ensuring the U.K. maintains its domestic oil and gas supply and in emission reduction projects such as carbon capture, utilization and storage ("**CCUS**"), hydrogen and geothermal. (*OGA Overview 2021; OGA UKCS Energy Integration Final Report; Oil & Gas U.K. Economic Report 2021; Oil & Gas U.K. Business Outlook Report 2021; Oil & Gas U.K. Decommissioning Insight Report 2021*).

Malaysia

Introduction

Malaysia is the fifth-largest LNG exporter and the 34th largest crude oil producer worldwide, as of the end of 2021. It is strategically located on important routes for seaborne energy trade. Malaysia's energy industry is an important sector of growth for the economy and the government continues to focus on increasing hydrocarbon production through upstream investment and exploration as a driver of economic growth. Malaysia is heavily dependent on oil and natural gas, which together accounted for 70.1% of its energy consumption in 2021, according to the BP Statistical Review of World Energy 2022. After declining by 6% the year before, the predicted growth in total energy consumption in 2021 was roughly 2%. *(EMIS, Malaysia Oil & Gas Sector 2022/2023; US Energy Information Administration January 2021 - Country Analysis Executive Summary: Malaysia).*

Upstream Sector Overview

Energy policy in Malaysia is set and overseen by the Economic Planning Unit ("**EPU**") and the Implementation and Coordination Unit ("**ICU**"), which both report directly to the Office of the Prime Minister.

Malaysia's national oil and natural gas company, Petroliam Nasional Berhad ("**PETRONAS**"), holds exclusive ownership rights to all oil and natural gas exploration and production projects in Malaysia, and its Petroleum Management Unit ("**PMU**") is responsible for managing all upstream licensing procedures. PETRONAS holds stakes in most of the oil and natural gas blocks in Malaysia. In 2021, PETRONAS committed to a dividend payment of MYR 25 billion to the government, including MYR 7 billion special dividend paid right away, as a result of its improved financial performance*. (EMIS, Malaysia Oil & Gas Section 2022/2023)*.

Malaysia's Petroleum Development Act ("**PDA**") passed in 1974, led to the formation of PETRONAS. The PDA granted PETRONAS ownership and exclusive rights to all oil and gas resources in Malaysia, both onshore and offshore. PETRONAS' Petroleum Management Unit ("**PMU**") is responsible for managing all upstream licensing procedures. Companies interested in undertaking exploration and production activities in Malaysia are required to form a joint venture with PETRONAS and must allow the latter to have an equity interest stake of at least 15%.

ExxonMobil, Shell, and ConocoPhillips are the major international oil companies producing the most oil in Malaysia, according to Rystad Energy's production estimates. Murphy Oil divested its Malaysian assets through a share repurchase agreement with Thailand's PTT Exploration and Production Public Company Limited ("**PTTEP**") and left the country in 2019. New opportunities for investment in Malaysia's energy sector have attracted other foreign oil independents and national oil companies such as Repsol (Spain), Pertamina (Indonesia), PetroVietnam (Vietnam), and JX Nippon Oil and Gas (Japan). *(EMIS, Malaysia Oil & Gas Section 2022/23; US Energy Information Administration January 2021 – Country Analysis Executive Summary: Malaysia).*

Exploration and Production (Liquids)

Most of Malaysia's oil and gas reserves are in offshore fields. Thailand, Vietnam, and Brunei are the three neighboring nations with which Malaysia has explored collaborative development agreements. Malaysia produces a number of different crude oil blends, which are mainly medium to light sweet blends. Malaysia's Tapis blend, which is extracted from the Tapis field located offshore in the Malay Basin, generally commands a relatively strong price premium to other crude oils on the market. *(EMIS, Malaysia Oil & Gas Section 2022/2023; BP Statistical Review of World Energy 2022; US Energy Information Administration, January 2021 – Country Analysis Executive Summary: Malaysia).*

According to data from the BP Statistical Review of World Energy 2022, Malaysia's oil production has been decreasing from 2017 to 2021. In 2021, oil production fell a further 7.0% year-on-year to 573 kb/d, in part as a consequence of the offshore Gumusut-Kakap project's ongoing maintenance to fix a compressor problem, which decreased flows of the Kimanis crude grade. To offset the decline, PETRONAS seeks to attract new investment for smaller, marginal fields and reverse production declines by using enhanced oil recovery ("**EOR**") techniques. *(EMIS – Malaysia Oil & Gas Sector 2022/2023; BP Statistical Review of World Energy 2022; US Energy Information Administration January 2021 – Country Analysis Executive Summary: Malaysia).*

Exploration and Production (Gas)

Malaysia's natural gas production increased 8.0% in 2021 to 74.2bcm, supported by the global economic recovery post COVID-19. This increase reversed the approximately 10% drop recorded in 2020. Natural gas is expected to have robust demand in Malaysia this decade due to its use as the primary fuel for electricity generation and as a feedstock for the country's growing petrochemical industry. *(EMIS – Malaysia Oil & Gas Sector 2022/2023).*

Malaysia was the world's 5th largest exporter of LNG in 2021, with an export volume of 33.5 bcm. The top three major export destinations of Malaysia's LNG in 2021 were Japan (43.4%), China (34.1%), and South Korea (15.2%). PETRONAS is the dominant player in the natural gas sector and has historically held a monopoly on all upstream natural gas developments because of its role as the national oil company and as a regulator for upstream activity. It also plays a leading role in midstream and downstream activities as well as the liquefied natural gas trade. Petroleum Sarawak Berhad ("**Petros**"), Sarawak's state-owned oil and natural gas company, was established in March 2018 and was declared to have equal status with PETRONAS by the Chief Minister of Sarawak. In February 2020, Petros signed a domestic natural gas agreement with PETRONAS and took control over the sale, distribution, and supply of natural gas in Sarawak. *(EMIS – Malaysia Oil & Gas Sector 2022/2023; US Energy Information Administration January 2021 – Country Analysis Executive Summary: Malaysia).*

OUR BUSINESS

In this Offering Memorandum, the words "we," "us," and "our" refer to EnQuest PLC together with its subsidiaries on a consolidated basis, except where otherwise specified or clear from the context. The 1P and 2P Reserves data presented in this section have been audited at our request by GaffneyCline in accordance with SPE-PRMS guidelines and definitions. Estimated 1P and 2P Reserves presented herein may differ from estimates made in accordance with guidelines and definitions used by other companies in the industry or by the SEC. See "Presentation of financial and other information." Unless otherwise indicated, all production figures are presented on a net to our working interest basis. Where gross amounts are indicated, they are presented on a total basis—i.e., the actual interest of the relevant license holder in the relevant fields and license areas without deduction for the economic interest of our commercial partners, taxes or royalty interests or otherwise. Our legal interest and effective working interest in the relevant fields and license areas are separately disclosed. See "—Material agreements relating to our assets" for a more detailed discussion of the terms of the agreements governing our interests. Any projections and other forward-looking statements in this section are not guarantees of future performance and actual results could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See "Risk factors" and "Forward-looking statements."

Overview

We are a significant independent U.K. oil and gas producer operating in the U.K. North Sea and Malaysia. As of June 30, 2022, we had interests in 19 U.K. production licenses, 15 of which we operate, covering 26 blocks or part blocks in the UKCS. In January 2021, we acquired a 40.8% operating interest in the Bressay oil field; in July 2021, we acquired a 100.0% working interest in the P1078 license containing the Bentley heavy oil discovery; and in October 2021, we completed the acquisition of a 26.7% non-operated working interest in the Golden Eagle Asset, all in the U.K. North Sea. We also have interests in two licenses in Malaysia, both of which we operate.

Our average daily production on a working interest basis for the six months ended June 30, 2022 was 49,726 boepd, which included an average daily production on a working interest basis of 7,060 boepd from the Golden Eagle Asset. Since our inception, we have increased our net 1P and net 2P Reserves to 141 MMboe and to 194 MMboe (including the 1P and 2P Reserves from the Golden Eagle Asset), respectively, as of December 31, 2021 from 36 MMboe and 81 MMboe, respectively, as of January 1, 2010, representing a compound annual growth rate for 2P Reserves of approximately 7.5% per annum and representing a reserves replacement ratio of approximately 1.7x. During the period from January 1, 2010 to December 31, 2021, we added net 2P Reserves of 273 MMboe and our production was 160 MMboe. Approximately 90% of our 2P Reserves are located in fields operated by us as well as located in fields in the U.K. North Sea. As of December 31, 2021, our assets had a reserve life of 12 years and a resource life of 25 years, compared to an estimated average reserve life of 10 years and an estimated average resource life of 7 years for selected peers.

Our producing assets generated revenue and other operating income, gross profit/(loss) and Adjusted EBITDA of $1,623.3 million, $462.9 million and $933.7 million, respectively, in the twelve months ended June 30, 2022. In the six months ended June 30, 2022, our average unit operating costs were $22.7/boe.

We were founded in 2010 through a combination of Petrofac Energy Developments Limited ("**PEDL**") and certain assets of Lundin Petroleum AB ("**Lundin**"). We purchased PEDL and the UKCS assets of Lundin in exchange for stock. Following our initial public offering in April 2010, our shares are listed and trade on both the London Stock Exchange and the NASDAQ OMX Stockholm. As of September 8, 2022, our market capitalization was approximately $678.0 million based on the Bloomberg Composite Rate (London) pounds sterling/US dollar exchange rate of $1.16 per £1.00. In 2014, we diversified our geographical footprint through acquiring initial production licenses in Malaysia.

We believe that our operational and commercial capabilities and experienced technical staff and management have allowed us to grow production, Reserves and Resources since 2010 profitably. We further believe that in the UKCS, Malaysia, and potentially other geographic regions we have, and will continue to have, substantial opportunities for acquisitions and development through low-cost, near-field drilling and subsea tie-back projects, while maintaining a focus on the health, safety and environmental impacts of our operations. Most of our existing assets are located in the UKCS in the North Sea. We also have interests in licenses in Malaysia. See "*Risk factors— Risks relating to our business—All of our production comes from a small number of offshore assets in the UKCS and Malaysia, making us vulnerable to risks associated with having significant production in two countries and only a small number of assets*."

One of our top priorities is to achieve and maintain high health, safety and environmental performance. We believe that we have robust management systems, a culture of positive engagement and a commitment to continuous improvement. We are committed to respecting the people and environments that our business may affect, and we aim to operate our business to achieve safe results, with no harm to people or the environment. To achieve this, we aim to manage our business in compliance with legislation and industry standards, maintain high-quality systems and processes and seek to maintain safe and healthy workplaces. For more information on our health, safety, environment and assurance policies, see "*Our business—Health, safety, environment and assurance*."

UKCS

The U.K. North Sea business consists of three directorates:

***U.K. Upstream**: Kraken, Magnus, Golden Eagle, Greater Kittiwake Area, Scolty/Crathes, Alba, Bressay and Bentley*

The U.K. Upstream producing assets are characterized by their high production and operating efficiency. Our strategy is focused on reservoir management and resource development. In the six months ended June 30, 2022, daily average net production in the U.K. Upstream directorate was 43,422 Boepd, representing 87.3% of our total daily average net production for that period.

***Infrastructure and New Energy**: Sullom Voe Terminal ("**SVT**") and pipelines*

The Infrastructure and New Energy business remains focused on the delivery of safe and reliable operations while progressing renewable energy and decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen, by repurposing the existing infrastructure at SVT and connected offshore infrastructure. Having secured exclusivity from the Shetland Islands Council to progress new energy opportunities at SVT, we believe we are well placed to deliver on our new energy ambitions in cooperation with our potential strategic delivery partners and are currently exploring strategic operational and financial partnerships.

***U.K. Decommissioning**: Heather/Broom, Thistle/Deveron, Alma/Galia and the Dons*

The U.K. Decommissioning operations manage end of field life decommissioning programs for assets that have already, or are about to cease production.

Malaysia

We also have producing assets located in Malaysia, PM8/Seligi and a non-producing interest in Block PM409, where we work to continue to better understand and ultimately rank the prospects in the block in order to identify suitable drilling opportunities with the intention of future development. In the six months ended June 30, 2022, daily average net production in Malaysia was 6,304 boepd, representing 12.7% of our total daily average net production for that period.

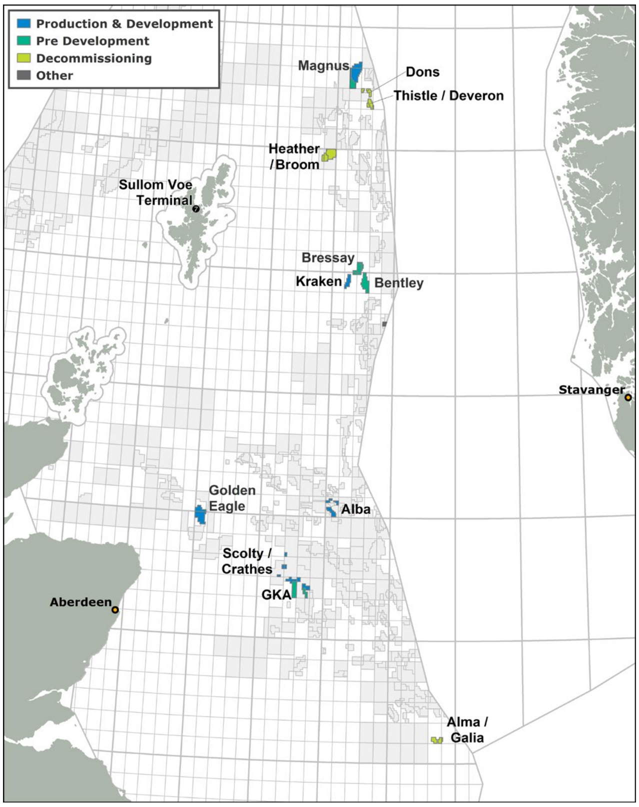
Working interest in producing assets

We typically seek to hold a significant working interest in our producing assets and developments, with 100.0% at Magnus, 70.5% at Kraken, 50.0% at GKA, 50.0% at Scolty/Crathes, 40.8% at Bressay, 26.7% at Golden Eagle and 100.0% at Bentley. In Malaysia, we hold a 50.0% working interest in PM8/Seligi and an 85.0% working interest in Block PM409.

Through ownership, holding a significant working interest and active participation rights, we are better able to shape the development plan of an asset and influence the timing and method of the extraction of resources than we would be able to if we were passive partners in our fields. As of June 30, 2022, we had ownership interests in 19 producing licenses, 15 of which were operated and 4 of which were partner-operated. In the six months ended June 30, 2022, 84.7% of our production was from operated assets while 15.3% was from partner-operated assets. We thus have a significant degree of control over the timing and magnitude of operating and capital expenditures for most of our assets. We have the right and obligation under each joint operating agreement to which each asset is a party to take delivery of our share of production from each field for onward sale to third parties of our choice. Furthermore, in relation to crude oil, each field temporarily stores production either at the field (such as onboard an FPSO) or at a terminal (such as the SVT). This gives each field owner the ability to accumulate a marketable volume of cargo, which is firstly allocated in full to the field owner with the highest proportionate share of the total stored volume at the time a full cargo accumulates in the first instance. By mutual agreement, field owners may pool their production under a joint operating agreement in order to share in cargoes. We have full discretion over the marketing of our attributable volumes across our portfolio and, in relation to assets in which we hold a minority, non-operated stake such as Alba and the Golden Eagle Asset, we market our attributable volumes independently of our partners in each field. We market our attributable volumes independently from our field partners to enable us to best leverage our proprietary trading capabilities and substantial industry know-how.

We believe that our existing assets with the highest remaining production potential are Kraken, Magnus, Golden Eagle and PM8/Seligi. We are also the operator of three of these assets, with the exception of the Golden Eagle Asset. There are also material Reserves and Contingent Resources within Kraken, Magnus and PM8/Seligi assets that we believe can be accessed through short-cycle low-cost drilling and subsea tie-back projects. The 2021 acquisitions of approximately 115 MMbbls of net 2C Resources associated with our operating interest in Bressay and 131 MMbbls of net 2C Resources associated with our operating interest in Bentley provide significant long-term, low-risk production opportunities that have similarities to our Kraken field. Kraken, Magnus, other U.K. fields and fields located in Malaysia have 33 MMboe, 34 MMboe, 3 MMboe and 86 MMboe of net 2C Resources, respectively.

The following map sets forth the locations of our assets in the UKCS.



The following table sets forth the net daily average production on a working interest basis for each of our producing UKCS operations and Malaysian operations for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and June 30, 2022:

		Net daily average production (boepd)				
	Working interest	For the year ended December 31,			For the six months ended June 30,	
Region		**2019**	**2020**	**2021**	**2021**	**2022**
U.K. Upstream	—	**49,083**	**50,334**	**39,220**	**41,041**	**43,422**
Kraken	70.5	25,172	26,450	21,964	23,690	19,527
Magnus	100.0	18,267	17,416	11,870	13,847	12,754
Golden Eagle(1)	26.7	—	—	1,701	—	7,060
GKA(2)	50.0	1,961	1,257	485	229	1,168
Scolty/Crathes	50.0	2,848	4,561	2,610	2,678	2,395
Alba	8.0	835	650	590	597	518
Bentley	100.0	—	—	—	—	—
Bressay	40.8	—	—	—	—	—
U.K. Decommissioning		**10,870**	**2,346**	**167**	**337**	**—**
Heather/Broom(3)	—	1,855	—	—	—	—
Thistle/Deveron(3)	—	4,111	—	—	—	—
Alma/Galia(4)	—	1,900	714	—	—	—
The Dons(5)	—	3,005	1,632	167	337	—
Malaysia		**8,653**	**6,436**	**5,028**	**4,809**	**6,304**
PM8/Seligi	50.0	8,579	6,436	5,028	4,809	6,304
Tanjong Baram(6)	70.0	74	—	—	—	—
Total		**68,606**	**59,116**	**44,415**	**46,187**	**49,726**

Notes:

(1) For the year ended December 31, 2021, the Golden Eagle net daily average production reflects the contribution from the date we completed the acquisition, October 22, 2021, to December 31, 2021, averaged over the 12 months to the end of December.

(2) GKA production is split across four fields, Kitiwake (50.0% working interest), Mallard (50.0% working interest) and Grouse and Gadwall (50.0% working interest).

(3) Production has been shut since October 2019 with formal cessation of production in the second quarter of 2020.

(4) Ceased production in June 2020.

(5) Ceased production in March 2021.

(6) Following two consecutive quarters of allocated revenue being below operating expenditures, the Tanjong Baram field was deemed uneconomic and we issued a termination notice under the terms of the Tanjong Baram Small Field Risk Service Contract. The Tanjong Baram Small Field Risk Service Contract was terminated on March 3, 2020.

Reserves & contingent resources

The following table sets forth the 1P Reserves, 2P Reserves and 2C Resources as of the years ended December 31, 2019, 2020 and 2021.

	As of December 31,		
	2019	2020[(1)]	2021[(2)]
1P Reserves			
Oil (MMbbl)	133	115	133
Gas (Bscf)[(3)]	44	49	50
Total 1P Reserves (MMboe)	**140**	**123**	**141**
2P Reserves			
Oil (MMbbl)	201	178	182
Gas (Bscf)[(4)]	68	64	69
Total 2P Reserves (MMboe)	**213**	**189**	**194**
2C Resources			
Oil (MMbbl)	134	238	359
Gas (Bscf)	237	249	262
Total 2C Resources (MMboe)	**173**	**279**	**402**

(1) For the year ended December 31, 2020, 2C Resources includes 115 MMbbls associated with the completion of the Bressay acquisition in January 2021.

(2) For the year ended December 31, 2021, 1P Reserves, 2P Reserves and 2C Resources include the net oil and gas reserves associated with the Golden Eagle acquisition which we closed on October 22, 2021.

(3) For the years ended December 31, 2019, 2020 and 2021, 1P gas reserves included 34.2 Bscf used for fuel and 10.1 Bscf used for sales, 32.8 Bscf used for fuel and 16.0 Bscf used for sales and 40.2 Bscf used for fuel and 9.7 Bscf used for sales, respectively.

(4) For the years ended December 31, 2019, 2020 and 2021, 2P gas reserves included 41.5 Bscf used for fuel and 26.9 Bscf used for sales, 38.6 Bscf used for fuel and 25.5 Bscf used for sales and 47.8 Bscf used for fuel and 21.5 Bscf used for sales, respectively.

Strengths

We believe that the combination of our high-quality asset portfolio, operational scale and financial strength, will position us to deliver on our strategy and take advantage of production and development opportunities in the U.K. North Sea and beyond.

High-quality, operated asset base in developed petroleum markets with material upside and well positioned to benefit from the strong commodity price outlook

We have an attractive portfolio of operated producing and non-producing assets primarily located in the U.K. North Sea. We are the operator at fields comprising 84.7% of our average daily production as of June 30, 2022, constituting all but two of our fields, which provides us with significant influence over capital expenditures, development and production, environmental, social and governance initiatives as well as relevant appraisal activities. Operatorship of our assets also facilitates strong control over cost management, enabling us to moderate expenditures as appropriate throughout the economic cycle. At Magnus, we successfully returned two wells to service in the first half of 2022 and also successfully drilled and logged the North West infill well in late July. At Golden Eagle, the joint venture has approved a two infill well drilling campaign to commence at the end of the third quarter of 2022, with first oil expected around the end of the first quarter of 2023. In Malaysia, we completed four planned workovers and have also successfully executed a three well plug and abandonment ("**P&A**") campaign during the first half of the year. For 2023, we have sanctioned a three infill well drilling program in Malaysia, in alignment with the established asset strategy, which is a part of our plan to fully optimize recovery of the significant remaining oil and gas resources.

A large portion of our portfolio consists of long-life assets that are oil-weighted providing material upside and positioning us to benefit from the strong commodity price outlook. As of December 31, 2021, our assets had a reserve life of 12 years and a resource life of 25 years and we had 194 MMboe of 2P Reserves, of which 174 MMboe are located in the UKCS and 20 MMboe are located in Malaysia, and 402 MMboe 2C Resources, of which 316 MMboe are located in the UKCS and 86 MMboe are located in Malaysia. We believe that the continued focus on established jurisdictions with developed petroleum markets, such as the U.K., provide us with an attractive operating environment highlighted by a stable and consistent regulatory regime and fiscal environment.

Strong, resilient free cash flow generation that facilitates both reinvestment and deleveraging, aided by attractive fiscal dynamics

We generated Adjusted EBITDA of $933.7 million and $536.3 million during the twelve months ended June 30, 2022, and the six months ended June 30, 2022, respectively, with a reinvestment ratio of 47% for the twelve months ended June 30, 2022 and 13% for the six months ended June 30, 2022. Our Adjusted operating cash flow for the six months ended June 30, 2022 was $406.6 million. We also generated an Adjusted operating cash flow per boe for the six months ended June 30, 2022 of $45.2/boe and free cash flow per boe of $36.9/boe. During the six months ended June 30, 2022, our strong free cash flow generation enabled us to make a $300 million early voluntary repayment of the RBL Facility and a further $25 million repayment between June 30, 2022 and the end of August 2022.

We generated Adjusted EBITDA of $1,006.5 million, $550.6 million and $742.9 million during the years ended December 31, 2019, 2020 and 2021, respectively, resulting in strong and resilient free cash flow generation that facilitated both reinvestment and deleveraging, aided by attractive fiscal dynamics. As a result, our reinvestment ratio was 34%, 34% and 58% during the years ended December 31, 2019, 2020 and 2021. Our Adjusted operating cash flow for the years ended December 31, 2019, 2020 and 2021 was $687.4 million, $390.8 million and $539.8 million, respectively, improving significantly since 2015. We also generated an Adjusted operating cash flow per boe for the years ended December 31, 2019, 2020 and 2021 of $27.4/boe, $18.1/boe and $33.3/boe, respectively, and free cash flow per boe for the years ended December 31, 2019, 2020 and 2021 of approximately $15/boe, $10/boe and $24/boe, respectively. Our strong cash flow performance during the periods under review enabled us to refinance and repay certain of our indebtedness leading to a simplified capital structure, with a lower than expected utilization and enabled the payment of $249.7 million cash consideration in connection with the Golden Eagle acquisition.

The table below shows free cash flow per barrel of oil equivalent for the Company and certain selected peers. For comparability purposes, in the below table free cash flow per barrel of oil equivalent is defined as operating cash flows (calculated as EBITDA less cash interest paid, cash taxes paid and lease expenses) less capital expenditure and abandonment expenditure over production. This differs from how we present free cash flow elsewhere in this Offering Memorandum. See "*Presentation of financial and other information—Non-IFRS Measures*" and "*—Summary financial data—Other financial data and key ratios*."

Source: Company information and selected peer annual reports. Peers include Aker BP, DNO, Harbour, Kosmos, Lundin, Neptune, Seplat and Tullow. The information included in the table above is as per relevant company reporting for the year ended December 31, 2021. For comparability purposes, in the above table free cash flow per barrel of oil equivalent is defined as operating cash flows (calculated as EBITDA less cash interest paid, cash taxes paid and lease expenses) less capital expenditure and abandonment expenditure over production. This differs from how we present free cash flow elsewhere in this Offering Memorandum. For more information on our definition of Free cash flow, See "*—Summary financial data—Other financial data and key ratios.*"

We believe our existing capital structure, as well as the Transactions, provide us with scope for further deleveraging in 2023 and beyond, particularly in light of the current strength of oil prices.

We also have an active hedging strategy that provides predictability of cash flows and enables resilient cash flows even at lower oil prices. As of June 30, 2022, we have hedged a total of approximately 3.4 MMbbls and approximately 3.5 MMbbls for the six months ended December 31, 2022 and June 30, 2023, respectively, with an average floor price of approximately $60/bbl and approximately $57/bbl, respectively, and an average ceiling price of approximately $79/bbl and $77/bbl, respectively.

In addition, we continue to have unrestricted access to our U.K. North Sea corporate tax losses, subject only to generating suitable future profits, which at June 30, 2022 were $2,627.7 million (December 31, 2021: $3,011.0 million). Ring Fence Expenditure Supplement on UK activities, which would have historically provided an offset to the U.K. tax charge, ceased to be available to claim from the end of 2021. Following the Transactions, we believe that our capital structure, as well as predictable cash flows due to our hedging strategy, will provide us with the financial flexibility to implement our strategy and, in turn, continue increasing our cash flows.

Proven operational and safety track record with significant in-house technical and operating experience

Our in-house technical and operations teams underpin our development and operations-focused strategies. We are differentiated from our peers by the breadth and depth of these teams, their knowledge and experience in engineering, subsurface, execution and operations and our leadership in innovative integrated developments, such as the integration of Magnus. We have a spectrum of integrated technical capabilities, combining subsurface, facilities planning and drilling, providing us with the right mix of capabilities to deliver successfully new oil field developments and strong production from producing assets in maturing basins. Our combination of technical capabilities has competitive levels of drilling, production efficiency and Scope 1 and 2 emission reductions while extending field life and delivering cost efficient decommissioning.

In the years ended December 31, 2020 and 2021, we achieved excellent levels of production efficiency and high operational uptimes at Kraken, achieving 87% and 88% production efficiency, respectively, compared to 2021 UKCS average production efficiency of 72% for floating hubs, according to the North Sea Transition Authority, a top quartile position in the Oil & Gas Authorities rankings. In the six months ended June 30, 2022, production and water injection efficiency at Kraken were 92% and 95%, respectively. Similarly GKA achieved strong uptime at 92% in the six months ended June 30, 2022, with the 11-day planned shutdown completed three days ahead of schedule. Production efficiency was also strong at Golden Eagle in the six months ended June 30, 2022 achieving 95%, including an optimized shutdown which was executed in two days instead of four.

Our technical and operating experience enabled a reduction in our unit operating costs at Magnus from a budgeted unit operating costs of more than approximately $60/boe in the year ended December 31, 2015 to an average of less than $24/boe for the years ended December 31, 2019, 2020 and 2021, representing a reduction in average unit operating expenditure of approximately 60% between 2015 and the average unit operating expenditure for the years ended December 31, 2019, 2020 and 2021 at Magnus. Similarly, at PM8/Seligi in Malaysia, we were able to lower our unit operating costs from approximately $30/boe in the year ended December 31, 2014 to an average of approximately $20/boe in the years ended December 31, 2019, 2020 and 2021, representing a reduction in average unit operating expenditures of approximately 32% between 2014 and the average unit operating expenditure for the years ended December 31, 2019, 2020 and 2021.

Our operational expertise also enabled us to achieve a lost time incident frequency ("**LTI**") of nil for the Group in the six months ended June 30, 2022 and 0.21 in the year ended December 31, 2021 compared to 1.28 in the year ended December 31, 2015.

We believe that our management has demonstrated that it has differentiated project management and execution capabilities and that this has led to innovative, fast and cost efficient development of challenging hydrocarbon assets. For example, the development of Kraken was completed approximately $1.0 billion under the budget due to our strong capabilities in control of our operational and capital expenditures. Additionally, we believe that our technical leadership position should allow us to continue attracting talent in a competitive market.

Prudent capital allocation and conservative financial policies focused on deleveraging and risk mitigation

Our prudent capital allocation and financial policies are focused on deleveraging and risk mitigation. Balance sheet strength, active management of capital structure and financial discipline continue to remain our key priorities. Our active hedging strategy also enables resilient cash flows, even at lower oil prices. For example, we have repaid certain of our indebtedness leading to a more simplified capital structure and reduced our RBL Facility borrowing by $325 million in the period from January 1, 2022 to August 31, 2022.

Additionally, on September 21, 2022, we repaid $90.4 million of the RBL Facility representing the outstanding amount and including $0.4 million of accrued and unpaid interest.

In addition, we believe that we benefit from having limited decommissioning obligations as compared to our working interests. We aim to keep our decommissioning obligations to a minimum and will only take on further decommissioning obligations on a case-by-case basis, where appropriate.

We employ a rigorous framework for all M&A that we believe delivers value accretive acquisitions, including the BP-Magnus transaction and more recently the Golden Eagle acquisition, which re-weights our portfolio to mid-life assets. We expect the Golden Eagle acquisition to generate significant value enhancement in excess of $100.0 million NPV(10) at a long-term oil price of $50/bbl, primarily related to accelerated partial use of our tax losses compared to a collective purchase price of $325.0 million.

Sector-leading ESG delivery with business model that is strongly positioned to play an important role in the energy transition

We believe we have a strong business model that is well-positioned to play an important role in the energy transition, by delivering sector-leading environmental, social and governance ("**ESG**") metrics, responsibly optimizing production, leveraging existing infrastructure, delivering strong decommissioning performance and exploring new energy and further decarbonization opportunities.

We have achieved U.K. Scope 1 and 2 emissions reduction of approximately 44% in 2021 as compared to 2018 levels, significantly ahead of U.K. Government's North Sea Transition Deal target of a 10% reduction by 2025, a 25% reduction by 2027 and close to the 50% reduction targeted by 2030. On a group-wide basis we have also made progress in materially reducing emissions, with total Scope 1 and 2 CO_2 equivalent emissions reduced by approximately 15% as compared to 2020 levels. We are continuing to pursue contributions to Scope 3 emission reductions on certain UKCS assets. In addition, through our Infrastructure and New Energy segment, we have also been evaluating repurposing opportunities in the medium-term, including the Sullom Voe Terminal, pipelines and underground reservoirs, to facilitate potential electrification, hydrogen and carbon capture and storage initiatives. Initial feasibility studies have indicated existing infrastructure and storage sites are capable of housing up to 10 million tonnes per annum of CO_2. In May 2022, we made two carbon capture and storage ("**CCS**") license area nominations in locations which are both accessible from our existing infrastructure. These were both accepted and we made two applications in respect of these license areas in the North Sea Transition Authority ("**NSTA**") UK offshore CCS licensing round, which closed on September 13, 2022 with results expected to be announced in the first quarter of 2023. We have linked certain ESG targets as a key performance metric in our 2021 and 2022 long-term incentive scheme for executive directors and applicable employees and it is also linked to appropriate targets within our short-term incentive plan. In addition, we are broadly in line with the Women Leaders Review target of 40% female board representation, with 33% female representation currently on the board and are ahead of the Parker review target with respect to minority ethnic representation with four minority board members in contrast to the established target of one.

Experienced management team with proven track record of value delivery

Our board of directors and senior management team have a significant amount of experience in the energy, oil and gas industries. Additionally, our leadership team features individuals with extensive, diverse experience that we believe is vital to managing a company that identifies value-creating opportunities in maturing oil field assets. We believe that our leadership team has the varied experience and proven track record in the oil and gas industry necessary to provide a strong platform to deliver long-term growth and identify new production and development opportunities.

Our management team has a proven track record of adding value organically by lowering costs, enhancing production efficiency, extending field life and deferring decommissioning. Since our initial public offering in 2009, under the direction of our management team annual production has increased at a compound annual growth rate of approximately 10%. Between the year ended December 31, 2015 and the twelve months ended June 30, 2022, under the direction of our management team we have improved production from approximately 36.6 Kboepd to approximately 46.3 Kboepd, a 26.5% improvement. Over the same period, we have reduced our unit operating costs from $29/boe in the year ended December 31, 2015 to approximately $22.3/boe in the twelve months ended June 30, 2022, a 23.1% reduction. At the same time, management has been able to strengthen the balance sheet reducing net leverage from 3.3x in 2015 to 0.9x as of June 30, 2022, a 72.7% reduction.

Strategies

We aim to remain one of the U.K.'s leading independent oil and gas production and development companies with a focus on energy security, sustainability and the energy transition. We operate a production-based portfolio with exposure predominantly to the established hydrocarbon basin of the UKCS. We intend to deliver sustainable growth by focusing on exploiting our existing reserves, commercializing and developing discoveries, converting our significant Contingent Resources into reserves and pursuing selective acquisitions. In addition, our Infrastructure and New Energy segment will continue to assess renewable energy and decarbonization opportunities that would leverage existing infrastructure. We are developing cost-effective and efficient plans to transform the Sullom Voe terminal and prepare and repurpose the site to progress decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen.

Continued operational excellence with a focus on ESG and Sustainability

We have a strong track record for conducting our operations in a safe and environmentally responsible manner and seek to maintain high safety standards. As an oil and gas company, safely improving the operating, financial and environmental performance of mature and late-life assets will remain a key focus. Our highly skilled and integrated teams strive to enhance hydrocarbon recovery through focused improvement programs with the aim of ensuring employee safety is a top priority and limiting the effects of climate change.

We recognize that industry, along with other key stakeholders such as governments and regulators must contribute to reducing the impact on climate change of carbon-related emissions. We are committed to playing our part in achieving national emissions reduction targets and the drive to "net-zero", with the Infrastructure and New Energy segment having overall responsibility for delivering our emission reduction objectives. Through our environmental management system ("**EMS**") we strive to ensure that our operations are undertaken in a manner that manages and mitigates our impact on the environment. The EMS is aligned with the requirements of the International Organization for Standardization's environmental management system—ISO 14001—and is independently verified every two years. In the United Kingdom we will continue to publish our annual Environmental Statement and in Malaysia, environmental management and reporting is undertaken through PETRONAS Malaysia Petroleum Management.

In 2021, we set a target of reducing our absolute Scope 1 and 2 CO_2 equivalent emissions by 10% by 2023. We have linked this target as a key performance metric in our 2021 and 2022 long-term incentive scheme for executive directors and applicable employees and it is also linked to appropriate targets within our short-term incentive plan.

As the energy transition progresses and other industry operators continue to shift their focus from mature basins within various geographies, it is expected that there will be further opportunities for us to access additional oil and gas resources. However, we will aim to ensure we identify the right opportunities where we can deliver incremental emission reductions relative to the carbon footprint of the seller. In addition, our Infrastructure and New Energy segment will continue to assess renewable energy and decarbonization opportunities that would leverage existing infrastructure.

We are developing cost-effective and efficient plans to transform the Sullom Voe terminal and prepare and repurpose the site to progress decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen. Having secured exclusivity from the Shetland Islands Council to progress new energy opportunities on the site, we believe we are well placed to deliver on our new energy ambitions in cooperation with our potential strategic delivery partners and are currently exploring strategic operational and financial partnerships. The availability of the deep-water port and jetties and a pipeline network linked to several well-understood offshore reservoirs presents the opportunity to repurpose infrastructure to import and permanently store material quantities of CO_2 from isolated emitters in the UK, Europe or further afield. Initial feasibility studies have indicated existing infrastructure and storage sites are capable of housing up to 10 million tonnes per annum of CO_2. In May 2022, we made two carbon capture and storage ("**CCS**") license area nominations in locations which are both accessible from our existing infrastructure. These were both accepted and we made two applications in respect of these license areas in the North Sea Transition Authority ("**NSTA**") UK offshore CCS licensing round, which closed on September 13, 2022 with results expected to be announced in the first quarter of 2023. See "*Business—Overview of our assets—Infrastructure and New Energy*."

The safety of our people and operations is and will continue to be integral to our values. We have a group-wide health, safety, environment and assurance policy. We will continue to undertake improvement activities in support of our four key pillars of operations which are i) standards, setting rules and procedures; ii) awareness, ensuring employees understand the hazards and relevant controls; iii) fairness, or adopting the correct behaviors; and iv) engagement, communicating effectively with our employees. Despite the challenges and uncertainties of 2021 and managing late life assets through production operations and decommissioning activities, our LTI performance remained relatively stable at 0.21, as compared to 0.57 and 0.22 in 2019 and 2020, respectively, in line with the International Association of Oil and Gas Producers benchmark for LTI frequency for year end 2020 which was 0.22. Our LTI performance for the six months ended June 30, 2022 was nil.

Our employees are central to our continued operational excellence and, as such, we are committed to providing an inclusive culture that recognizes and celebrates difference, encourages diversity of thought and embraces new ways of working to create an environment that enables the development of creative solutions to continue to deliver performance and value. Our diversity and inclusion strategy, developed in the first quarter of 2021, is now embedded in the overall strategy of the business. In 2021, we were named one of three finalists for the 2021 OGUK Diversity & Inclusion Award, from over 90 applicants from across the industry. We have set targets for gender and ethnicity representation in leadership, with a target of 30% women in both leadership roles and management grades across the business and a 20% minority ethnic representation in executive leadership roles. We aim to achieve these targets by 2025.

Maximize the performance of our existing asset portfolio and deliver innovative value-add initiatives

We aim to employ a cost conscious approach to our operations and implement innovative initiatives to add value to our operations. Since 2015, we have been able to significantly reduce our capital expenditure, while our abandonment expenditure only increased in the last two years compared with all prior years since 2015. We strive to utilize innovative transaction structures to facilitate getting the right assets in the right hands.

We believe we are strongly positioned to take advantage of the energy transition by responsibly optimizing production at our existing assets, leveraging existing infrastructure, delivering strong decommissioning performance and exploring new energy and further decarbonization opportunities. For example, for the year ending December 31, 2022, we expect cash capital expenditure of approximately $165 million, with approximately $110 million expected in the second half of 2022, and we expect cash abandonment expenditure of approximately $75 million, with approximately $47 million expected in the second half of 2022. Similarly, we expect operating expenditure of $430 million, with approximately $222 million expected in the second half of 2022. Moreover, to support these ambitions over the medium- to long-term, we established our Infrastructure and New Energy segment in 2021. This business is developing cost-effective and efficient plans to transform the Sullom Voe terminal and prepare and repurpose the site to progress decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen.

For the year ending December 31, 2022, we expect our average net production to be between 44,000 and 51,000 boepd.

We are disciplined in our assessment of acquisition opportunities, ensuring we review potential targets to ensure a fit for our portfolio and capabilities, as well as ensuring the right price

For example, in October of 2021, we completed the acquisition of Golden Eagle, a highly cash generative asset providing significant value enhancement through the addition of approximately 18 MMbbls to our 2P Reserves and approximately 3 MMbbls to net 2C resources, both as at December 31, 2021, for cash consideration of $249.7 million. The acquisition of Golden Eagle demonstrates our approach to selectively identify assets that fit our business model at the right price to strengthen our portfolio of assets.

Leverage integrated technical capabilities

We believe we have the right mix of integrated technical capabilities to select appropriate development and production options, deliver high levels of production efficiency and control costs to realize value from maturing and underdeveloped assets. We aim to achieve asset life extension and maximize economic recovery from those assets to enable future growth. Similarly, we are using our skills to assess repurposing opportunities of existing infrastructure and progress decarbonization opportunities.

Maintain a disciplined approach to financial management and a strong balance sheet

We aim to have a conservative financial profile and strong balance sheet with ample liquidity. Debt reduction and active management of our debt maturities will remain a priority, with leverage of 0.9x as of June

30, 2022 down from 6.6x as of December 31, 2017. As of June 30, 2022, on a *pro forma* basis after giving effect to the Transactions, our net leverage would have been 0.8x and our capital structure would have had a weighted average life ("**WAL**") of 4.3 years. We have identified a medium- to long-term net leverage target of 0.5x. We have also continued to reduce our net debt, down to $880.0 million as of June 30, 2022, our lowest level since 2014, which resulted in a corresponding reduction of leverage to 0.9x, calculated using net debt as of June 30, 2022 over Adjusted EBITDA for the twelve months ended June 30, 2022. Our deleveraging is driven by solid free cash flow, supported by material hedging revenues and our U.K. tax allowance position. While we intend to use debt financing and access to capital markets when appropriate, we will seek to manage the business with leverage levels that are reflective of the financial capacity of our assets.

Our liquidity is primarily derived from our RBL Facility. As of December 31, 2020 and 2021, our total cash and available facilities were $284.1 million and $318.7 million, respectively. In the six months ended June 30, 2022, we repaid $300.0 million under our RBL Facility. As of June 30, 2022, our total cash and available facilities were $467.0 million, including restricted funds and ring-fenced funds held in joint venture accounts totaling $286.1 million.

In line with our continued focus on deleveraging, we have further reduced amounts outstanding under the RBL Facility to $90.0 million as at August 31, 2022 and bought back and cancelled $34.9 million of our Existing Senior Notes across July, August and September 2022, leaving $792.3 million outstanding. As of August 31, 2022, net debt was $817.6 million. In September, the Group repaid the outstanding RBL Facility cash balance of $90.0 million and associated interest of $0.4 million.

We will continue to focus our capital allocation strategy on identifying investments that prioritize positive cash flow generation. With a focus on short-cycle projects, we can adjust our capital allocation decisions to match the prevailing oil demand and price environment and are actively assessing program optimization in light of the recently introduced Energy Profits Levy ("**EPL**") in the U.K. In the twelve months ended June 30, 2022, our cash outflow on capital expenditure was $90.6 million, excluding acquisitions. In the year ended December 31, 2021, our cash outflow on capital expenditure was $51.8 million, excluding acquisitions, as compared to $131.4 million in the year ended December 31, 2020.

As part of our prudent risk management program, we actively hedge our exposure to oil prices on a graduated rolling basis to provide strong price protection throughout the economic cycle and support consistent, predictable cash flows. Liquidity risk will continue to be monitored closely through cash flow forecasts and sensitivity analysis. We will also continue to manage credit risk by assessing the creditworthiness of potential counterparties before entering into transactions with them and by continuing to evaluate their creditworthiness after transactions have been initiated.

Our history

We were founded in 2010 through a combination of Petrofac Energy Developments Limited ("**PEDL**") and certain assets of Lundin Petroleum AB ("**Lundin**"). We purchased PEDL and the UKCS assets of Lundin in exchange for stock. Following our initial public offering in April 2010, our shares are listed and trade on both the London Stock Exchange and the NASDAQ OMX Stockholm. In 2014, we diversified our geographical footprint through acquiring initial production licenses in Malaysia.

We believe that our operational capabilities and experienced technical staff and management have allowed us to grow production, reserves and resources since 2010 and that in the UKCS, Malaysia, and potentially other geographic regions we have, and will continue to have, substantial opportunities for development through low-cost, near-field drilling and subsea tie-back projects, while maintaining a focus on the health, safety and environmental impacts of our operations.

Summary of historical reserves, resources and operating data

We retain GaffneyCline as our independent reserve engineer for the purposes of auditing our 1P and 2P Reserves. We estimate our reserves and resources internally. Our 1P and 2P reserve estimates, but not our 2C resource estimates, are audited by GaffneyCline. Our 1P and 2P Reserves and 2C Resources are estimated using the classifications as defined by the SPE-PRMS and supporting guidelines issued by the Society of Petroleum Engineers.

Typical to the industry in which we operate, there are a number of uncertainties inherent in estimating quantities of 1P and 2P Reserves. Therefore, the reserve information in the GaffneyCline Reports represents only estimates. Reserve assessment is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of a number of variable factors and assumptions, many of which are beyond our control, including the quality of available data and of engineering and geological interpretation and judgment and assumptions as to oil price. As a result, estimates of different reserve assessors may vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revising the original estimate. Accordingly, due to the inherent uncertainties and the limited nature of reservoir data and the inherently imprecise nature of reserves estimates, the initial reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. The significance of such estimates depends primarily on the assumptions upon which they were based. For a summary of certain assumptions used in reporting our estimates, see "*Certain reserves and production information—Hydrocarbon data*." Thus, you should not place undue reliance on the accuracy of the GaffneyCline Reports in predicting actual reserves or on comparisons of similar reports concerning companies established in other economic systems. In addition, except to the extent that we acquire additional properties containing 1P and 2P Reserves or conduct successful appraisal and development activities, or both, our 1P and 2P Reserves will decline as reserves are produced. The following reserve information should be read along with the sections entitled "*Risk factors—Risks relating to the oil and gas industry*" and "*Risk factors—Risks relating to our business*."

Potential investors should note that the GaffneyCline Reports have not estimated 1P and 2P Reserves under the standards of reserves measurement applied by the SEC (the "**SEC basis**") for any of the relevant periods reviewed in the Offering Memorandum, or otherwise. The SEC basis differs from PRMS. See "*Certain reserves and production information*."

Pursuant to the classifications and definitions provided by the PRMS, 1P Reserves are defined as those quantities of oil which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations ("**Proved Reserves**", or "**1P Reserves**"). If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Pursuant to the classifications and definitions provided by the PRMS, 2P Reserves are defined as those quantities of oil, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations ("**Proved Reserves**"), plus those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves ("**Probable Reserves**"); it is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved Reserves plus Probable Reserves (2P Reserves). See "*Certain reserves and production information*."

Pursuant to the classifications and definitions provided by the PRMS, Contingent Resources are those quantities estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. The 2C Contingent Resources represent the "best estimate" scenario of Contingent Resources (the "**2C Resources**"); there is a probability of at least 50% that the amount actually recovered will equal or exceed the 2C Resources estimate, in the event that the development project goes ahead.

The following tables set forth certain information with respect to our 2P Reserves and 2C Resources as of the years ended December 31, 2019, 2020 and 2021 and as at January 1.

(MMboe)	2P Reserves January 1	Production(1)	Net Revisions	2P Reserves December 31	Reserve life (years) (2)
2019	245	(24)	(8)	213	9
2020	213	(22)	(2)	189	9
2021	189	(16)	21	194	12

(1) Sales volume for the period.

(2) Based on year-end reserves divided by the prior year average net working interest production.

(MMboe)	2C Resources January 1	Transferred to 2P Reserves	Net revisions	2C Resources December 31	Resource life (years)
2019	198	(18)	(7)	173	7
2020	173	(10)	116[(1)]	279[(1)]	13
2021	279[(1)]	(4)	127	402	25

(1) Includes 115 MMbbls associated with the completion of the Bressay acquisition in January 2021.

The following tables set forth certain information with respect to the 2P Reserves and 2C Resources as of December 31, 2021 for the Golden Eagle Area Development and Golden Eagle Asset.

(MMboe)	Gross figures attributable to the Golden Eagle Area Development	Net figures attributable to the Golden Eagle Asset
2P oil reserves	65.6	17.5
2C oil resources	6.6	1.8

(Bscf)[(1)]	Gross figures attributable to the Golden Eagle Area Development	Net figures attributable to the Golden Eagle Asset
2P gas reserves	15.6	4.1
2C gas resources	14.2	3.8

(1) More than 80% of the gas is fuel in both the 2P and 2C.

Internal controls over reserves estimates

Our policy regarding internal controls over the recording of reserves is structured to objectively and accurately estimate our oil reserve quantities and values in compliance with SPE-PRMS. These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. Each of our assets is managed by a dedicated asset team staffed with technically qualified industry professionals and led by a highly experienced team leader. Preliminary reserve estimates are prepared by the asset teams for review with the regional senior management and with technical advisers based in our head office. All staff are graduates in a relevant technical discipline and have substantial industry experience. The review teams in particular are typically comprised of individuals with over thirty years' experience in reservoir and petroleum engineering and include experts in reserves auditing standards.

1P Reserves are estimated using standard recognized evaluation techniques. The estimates for each asset are reviewed by GaffneyCline annually or more frequently upon the occurrence of a material change or acquisition. We provide GaffneyCline technical information including production, geological, geophysical, petrophysical, engineering and financial data as well as fiscal terms applicable to the various assets. Future development costs are provided consistent with the activities required to produce the 1P Reserves. GaffneyCline audits the information provided and recommends changes to the technical assumptions as required. Approved profiles and cost estimates are used to carry out economic modeling to determine economic cut-offs of profiles, and forward oil prices recommended by GaffneyCline. These models are provided to GaffneyCline, which then reports 1P reserve figures.

2P Reserves are estimated using standard recognized evaluation techniques. The estimates for each asset are reviewed by GaffneyCline annually or more frequently upon the occurrence of a material change or acquisition. We provide GaffneyCline technical information including production, geological, geophysical, petrophysical, engineering and financial data as well as fiscal terms applicable to the various assets. Future development costs are provided consistent with the activities required to produce the 2P Reserves. GaffneyCline audits the information provided and recommends changes to the technical assumptions as required. Approved profiles and cost estimates are used to carry out economic modeling to determine economic cut-offs of profiles. These models are provided to GaffneyCline, which then reports 2P reserve figures.

In addition, the Technical and Reserves Committee (a sub-Committee of the Board of Directors), which was established in October 2019 and comprises Board members with technical backgrounds and associated knowledge, provides oversight and review of our annual reserves report.

Qualifications of third party engineers

The technical personnel responsible for auditing the reserve estimates at GaffneyCline meet the requirements regarding qualifications, independence, objectivity and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by SPE-PRMS. GaffneyCline is an independent international energy advisory company; it does not own an interest in our properties and is not employed on a contingent fee basis. See "*Certain reserves and production information*."

Production and development

Our average daily production on a working interest basis for the six months ended June 30, 2022 was 49,726 boepd.

The following table provides a summary of our production and development portfolio by asset as of June 30, 2022.

Asset	Working interest (%)	Operator	Production (boepd) For the year ended December 31,			Production (boepd) For the six months ended June 30,	
			2019	2020	2021	2021	2022
U.K. North Sea upstream production and development							
Kraken & Kraken North	70.5	EnQuest Heather Limited	25,172	26,450	21,964	23,690	19,527
Magnus[(1)]	100.0	EnQuest NNS Limited	18,267	17,416	11,870	13,847	12,754
Golden Eagle	26.7	CNOOC	–	–	1,701	–	7,060
GKA[(2)]	50.0	EnQuest	1,961	1,257	485	229	1,168
Scolty/Crathes	50.0	EnQuest	2,848	4,561	2,610	2,678	2,395
Alba	8.0	Ithaca Oil and Gas Limited	835	650	590	597	518
Bressay[(3)]	40.8	EnQuest	–	–	–	–	–
Bentley[(4)]	100.0	EnQuest	–	–	–	–	–
Malaysia production and development							
Seligi, North & South Raya, Lawang, Langat, Yong & Serudon	50.0	EnQuest	8,579	6,436	5,028	4,809	6,304
Kecubung, Tinggi Timur, Payung, NW Pinang, Tg. Pulai, Ophir	85.0	EnQuest	74	–	–	–	–
U.K. North Sea decommissioning							
Heather[(3)]	N/A	EnQuest	1,855	–	–	–	–
Broom[(3)]	N/A						
Thistle[(3)]	N/A	EnQuest	4,111	–	–	–	–
Thistle & Deveron[(3)]	N/A						
Alma & Galia	N/A	EnQuest	1,900	714	–	–	–
The Dons	N/A	EnQuest	3,005	1,632	167	337	–

(1) BP is entitled to 37.5% of free cash flow from the assets subject to the terms of the transaction documents between BP and us.

(2) GKA production is split across four fields, Kitiwake (50.0% working interest), Mallard (50.0% working interest) and Grouse and Gadwall (50.0% working interest).

(3) Production has been shut since October 2019, with formal cessation of production in the second quarter of 2020.

(3) On January 20, 2021, we concluded the acquisition of a 40.81% working interest in the Bressay field. The field lies across the P234, P493, P920 and P977 licenses covering blocks 3/28a, 3/28b, 3/27b, 9/2a and 9/3a.

(4) On July 6, 2021, we concluded the acquisition to purchase Whalsay Energy Holdings Limited's entire 100.0% working interest in the P1078 license containing the Bentley heavy oil field in the U.K. North Sea.

The following table sets forth certain information with respect to our production volumes and realized pricing (which reflects the impact of derivatives) for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
Production/Sales:					
Sales Volume (MMboe)	28.2	22.2	18.4	7.3	7.7
Realized oil price ($/Boe)	65.3	41.3	68.6	62.8	89.9
Average unit operating costs ($/Boe)	20.6	15.2	20.5	19.3	22.7

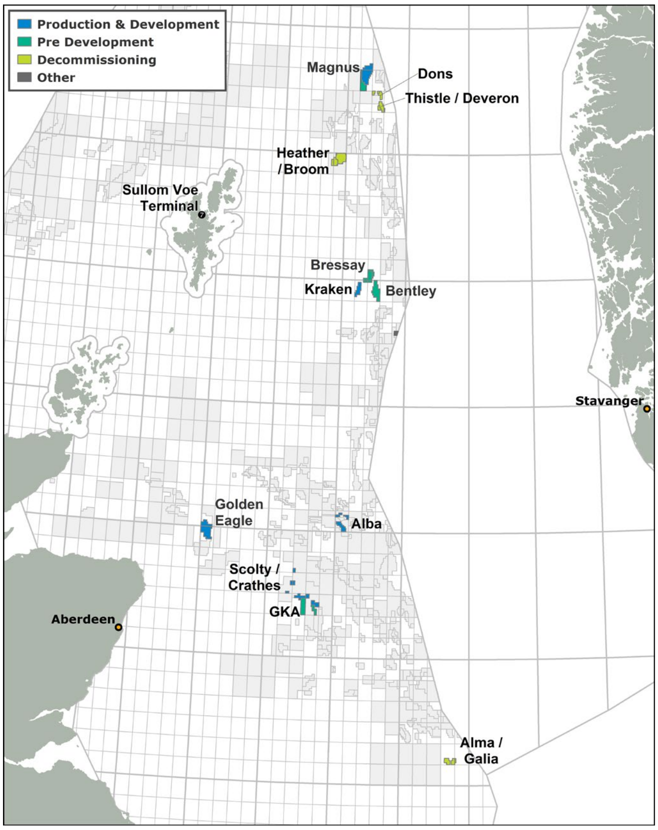
The following table sets forth information on our production and sales volumes for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022:

(boepd)	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
Total average daily production for the period	68,606	59,116	44,415	46,187	49,726
Total average daily sales volume for the period[(1)]	77,362	60,736	50,513	47,527	51,281

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

Overview of our assets

We have an asset portfolio of producing assets and development and appraisal opportunities, which are primarily located in the UKCS with others in Malaysia. For operational review purposes, we divide our assets into three U.K. directorates (U.K. Upstream, U.K. Decommissioning and Infrastructure and New Energy) and Malaysia. The following map sets forth the locations of our assets in the UKCS.



Overview of our UKCS assets

The U.K. North Sea business is organized into three directorates:

- **U.K. Upstream**: Kraken, Magnus, Greater Kittiwake Area, Scolty/Crathes, Alba, Bressay and Golden Eagle

  The U.K. Upstream producing assets are characterized by their high production and operating efficiency, focusing on reservoir management and resource development. In the six months ended June 30, 2022, daily average net production attributable to the U.K. Upstream directorate was 43,422 Boepd, representing 87.3% of our total daily average net production for that period.

- **U.K. Decommissioning**: *Heather/Broom*, *Thistle/Deveron*, *Alma/Galia and the Dons*

  The U.K. Decommissioning operations manage end of field life decommissioning programs for assets that have already, or are about to cease production.

- **Infrastructure and New Energy**: *Sullom Voe Terminal and pipelines*

  The Infrastructure and New Energy business is progressing renewable energy and decarbonization opportunities by repurposing the existing infrastructure at the Sullom Voe Terminal and connected offshore infrastructure.

U.K. Upstream

Our U.K. Upstream assets are as follows: (a) Kraken, our largest project to date and one of the largest projects in the UKCS in recent years, (b) Magnus, in which we acquired a 100.0% working interest from BP in two tranches in 2017 and 2018, (c) Golden Eagle, in which we acquired a 26.7% working interest in October 2021 and (d) other U.K. North Sea assets (comprising the Greater Kittiwake Area, Scolty/Crathes and Alba offshore producing assets, and the undeveloped Bressay field and Bentley discovery).

The U.K. Upstream assets contributed 43,422 boepd of average net production for the six months ended June 30, 2022 (93.4% liquids and 6.6% gas), an increase of 2,381 boepd compared to the six months ended June 30, 2021.

The increase in the average production of U.K. Upstream assets in the six months ended June 30, 2022 was primarily driven by production from Golden Eagle partially offset by lower production at Kraken and Magnus.

Kraken

Our Kraken operations produced a gross average of 27,698 boepd in the six months ended June 30, 2022, reflecting a decrease of approximately 17.6% compared to the gross average of 33,603 boepd in the six months ended June 30, 2021, primarily due to natural decline.

Production Facility	Kraken FPSO
Working Interest (%)	70.5
Operator	EnQuest Heather Limited
Field Partner	Waldorf Production Limited[(1)]
Decommissioning liability	As per working interest

(1) In November 2021, Cairn Energy PLC, our previous field partner at Kraken, announced that it had completed the sale of its interests in the U.K. Catcher and Kraken fields to Waldorf Production Limited. We do not expect the sale to affect our operations at Kraken.

Overview

Kraken is a large heavy oil accumulation in the East Shetland basin, located in block 9/2b to the west of the North Viking Graben located approximately 350 kilometers northeast of Aberdeen, Scotland. Our interest in Kraken is governed by license P1077, which expires on September 30, 2029. We acquired an initial working interest in Kraken from Canamens Ltd for $90 million in January 2012 and subsequently increased our stake to a 70.5% working interest throughout several transactions. We are the operator of the asset. First oil was delivered in June 2017, with the field development plan completed at approximately the end of the first quarter of 2019. We completed the drilling program at Worcester in the western area of the field in the first half of

2020, with a new producer-injector pair coming on-stream late in the second quarter. As of June 30, 2022, 14 production wells and 12 injection wells were on-stream.

The Kraken FPSO is connected to wells via subsea infrastructure. Offload tankers transport produced oil from the Kraken FPSO to buyers.

Daily average net production of 19,527 Boepd for the six months ended June 30, 2022 was ahead of guidance. Overall subsurface and well performance was good with aggregate water cut evolution remaining in line with expectations and the Floating, Production, Storage and Offloading ("**FPSO**") continued to perform well throughout the period, with top quartile production efficiency at 92%, 88% and 87% in the six months ended June 30, 2022 and the years ended December 31, 2021 and 2020, respectively. In the year ended December 31, 2021 the UKCS average production efficiency for floating hubs was 72%. In addition, we also had top quartile water injection efficiency at 95% in the six months ended June 30, 2022. During 2021, a number of opportunistic maintenance activities were successfully undertaken, allowing for the deferral of the planned shutdown to 2022. However, production was impacted by short duration shutdowns related to the repair of a subsea tether, an oil heater failure and natural decline.

For 2022, Kraken average daily production guidance is between 15,500 boepd to 18,500, reflecting the planned shutdown and natural decline.

We continue to optimize Kraken cargo sales into the shipping fuel market with Kraken oil a key component of IMO 2020 compliant low-sulphur fuel oil. As such, we have benefited from strong pricing in the market and avoid refining-related emissions.

In March 2020, Cairn Energy PLC, our field partner at Kraken, announced that it had entered into an agreement to sell its interests in the U.K. Catcher and Kraken fields to Waldorf Production Limited. The sale was completed in November 2021. The sale has not affected our operations at Kraken as of June 30, 2022.

We are not scheduled to return to drilling until 2024. However, Kraken continues to offer infill opportunities and near-field opportunities through the evaluation and development of the Pembroke, Antrim, and Maureen sands discoveries and prospects in the western area, which hold an estimated 70-130 MMbbls of stock-tank oil initially in place. We expect Kraken to have a field life of over 20 years with the prospect of relatively low decommissioning costs.

Recent developments

The Group optimized its planned third-quarter maintenance activities allowing Kraken to continue to operate on a single processing train for one week of the two-week program duration. Dual-train operations resumed in September.

Near-field drilling and subsea tie-back opportunities are being assessed. Following completion of a 3D seismic campaign in 2021, work is ongoing to interpret the seismic data in order to evaluate fully the development potential of the western area of the field, in addition to supporting ongoing optimization of the main Kraken field, including potential infill opportunities. The current expectation is the execution of an initial side-track opportunity in 2024, followed by drilling in the western area, with equipment orders likely to be placed during 2022 in order to accommodate significant supply chain lead times.

Magnus

Production Facility	Magnus platform
Working Interest (%)	100.0
Operator	EnQuest NNS Limited
Decommissioning liability	BP has retained the decommissioning liability in respect of the existing Magnus wells and infrastructure. We will pay BP additional deferred consideration by reference to 30.0% of BP's actual decommissioning costs on an after-tax basis, which we estimate will result in a payment equivalent to approximately 9.0% of the gross estimated decommissioning costs. The additional consideration payable is capped at the amount of cumulative positive cash flows received by us from Magnus, Sullom Voe Terminal and the associated infrastructure assets.

Overview

Magnus is the U.K.'s most northerly field, located 160 kilometers northeast of the Shetland Islands, mainly in Block 211/12a. The Magnus field is governed by license P193, which expires on cessation of production. We acquired an initial 25.0% working interest in Magnus from BP on December 1, 2017, on which date we also became the operator of Magnus, for $nil cash consideration. On December 1, 2018, we acquired an additional 75.0% working interest in Magnus from BP subject to certain profit share arrangements with BP.

At Magnus, unit operating costs have been lowered from approximately more than $60/boe in the year ended December 31, 2015 to less than $20/boe in the year ended December 31, 2020, leading to a 67% reduction in unit operating costs. We also improved our production efficiency from 59% in the year ended December 31, 2017 to 77% average for the years December 31, 2018 through December 31, 2021 and to 80% for the year ended December 31, 2020. In the six months ended June 30, 2022, production efficiency at Magnus was 73%. Since the acquisition of our working interest in Magnus and until December 31, 2021, we have received $350.0 million of net cash flow from Magnus.

Overall the Magnus field has approximately 2.0 Bnboe hydrocarbons initially in place, with just over 55% Recovery Factor and with 2C Resources of approximately 35 MMboe. Over 100 well penetrations have been drilled in almost 40 years, and there are 29 platform slots and three subsea wells. It has 15 active gas-lifted producers and six available injectors.

Daily average net production on a working interest basis for the six months ended June 30, 2022 was lower than during the same period in 2021 at 12,754 Boepd. Production was impacted by a seawater lift pump failure and a well integrity failure in June of 2022. The pump was replaced in July with additional spares purchased to mitigate potential future risks. The well intervention program is ongoing, with two wells successful return to service in the first half of 2022.

Recent developments

The North West Magnus production well, which is the longest reservoir section drilled this century at 1,914 meters with the longest liner ever run at Magnus, has been successfully drilled and logged in late July and is expected to come online in October. The program in the second half of the year continues to evolve as we focus on the most value-accretive opportunities, with the focus on a number of interventions to mitigate well failure risk and the return to service of the June well failure. Further infill drilling is now expected in 2023.

The planned three-week maintenance shutdown has now completed, with production resuming in September.

Golden Eagle Area Development

The Golden Eagle Area Development comprises three fields, namely, Golden Eagle, Solitaire and Peregrine located approximately 110 kilometers northeast of Aberdeen, Scotland, offshore in the UKCS in water depths of up to 114 meters. The Golden Eagle field was discovered in 2007 and first oil was produced in 2014 following development by Nexen Oil, and the Solitaire and Peregrine fields were subsequently developed as satellites with subsea wells tied back to the Golden Eagle field facilities. The Golden Eagle Area Development covers two U.K. licenses namely P300 and P928 and the current joint venture partnership consists of CNOOC with 36.5%; NEO Energy with 31.6%; ONE DYAS with 5.2% and the Company with 26.7%. The cash acquisition costs for Golden Eagle were approximately $250 million and since acquisition Golden Eagle has generated approximately $180 million of free cash flow.

The Golden Eagle Area Development produces good quality, sweet, low acid 36ºAPI oil from Upper Jurassic and Lower Cretaceous Punt and Burns reservoirs. Production is conducted via 18 gas-lifted subsea wells, including the four-well drilling program completed during 2020 and 2021. There are six water injection wells, which are all on the Golden Eagle field, with the Solitaire and Peregrine fields producing under natural depletion with limited aquifer influx. There are two subsea drill centers situated to the North (six slots) and South (four slots) of the facilities, which produce oil to a bridge linked wellhead platform ("**WHP**") and a production utilities and quarters ("**PUQ**") platform via rigid, pipe-in-pipe flowlines and two production and two gas lift and two water injection risers. The WHP and PUQ are supported by a four steel-leg substructure in 100 meters water depth.

Crude oil from the Golden Eagle Area Development is processed on the platform and then transported through the Golden Eagle pipeline to the Claymore line, where it is then routed to the Flotta system and processed into stabilized Flotta Gold blend at the Flotta Terminal. Gas is currently exported from the platform to the Ettrick 'T' piece and pipeline into the SAGE system for processing and sales at St Fergus. However, gas exports are due to finish in 2022 as from then on all available gas will be utilized for fuel.

In the six months ended June 30, 2022, Golden Eagle contributed 7,060 Boepd. Production efficiency remained strong at 95%, including an optimized annual shutdown that was executed in two days, instead of four, partially offset by plant instability caused by gas turbine trips and natural decline. These issues are being addressed by the operator, with further optimization activities, including well work, planned in the second half of the year.

Recent developments

The joint venture has approved a two infill well drilling campaign to commence at the end of the third quarter of 2022, with first oil expected at the end of the first quarter of 2023. We are proactively working with the operator to share insights to optimize drilling performance and future well work.

Greater Kittiwake Area (GKA)

	Kittiwake	Gadwall	Grouse	Goosander	Mallard
Production Facility	Kittiwake platform				
Working Interest (%)	50.0	50.0	50.0	50.0	50.0
Operator	EnQuest				
Field Partners	Dana Petroleum (E&P) Limited				
Decommissioning liabilities (%)	25.0	50.0	50.0	50.0	30.9

Overview

GKA is located in UKCS blocks 21/12a, 21/18a, 21/19a and 21/19b, and our assets there comprise five offshore oil fields: Kittiwake, Mallard, Gadwall, Goosander and Grouse. Our interest in GKA is governed by licenses P238 and P073, which expires on cessation of production.

GKA lies in water at depths ranging from 85 to 90 meters while the oil reservoir lies at depths ranging between approximately 2,800 meters and 3,900 meters. These fields have been developed as subsea tie-backs to a steel offshore platform located at Kittiwake. Oil from GKA is processed at the offshore platform and then exported via a 33 kilometer 10" pipeline, in which we hold a 100.0% interest, to the Forties Unity platform. From there, the oil is exported to shore at Cruden Bay via the Forties Unity Pipeline system and then on to Grangemouth for further processing.

We received payback on the Scolty/Crathes original drilling and sub-sea tie back development costs within 24 months and the subsea tie-back targeted an original life extension of the GKA hub by four years, which has been exceeded.

Production performance in the GKA in the six months ended June 30, 2022 was 1,168 Boepd. This was driven by uptime of 92% and the continued positive impact of work completed in the first quarter to optimize gas lift delivery pressure.

Recent developments

The planned 11-day shutdown was completed three days ahead of schedule, with the asset back online in August of 2022. We have implemented a gas accumulator to mitigate the need for import gas to support GKA's re-start requirements.

Other assets

Scolty/Crathes

Production Facility	Kittiwake platform
Working Interest (%)	50.0
Operator	EnQuest
Field Partner	MOL GROWEST (II) Limited
Decommissioning liability	As per working interest

The Scolty/Crathes assets are in blocks 21/8a (Scolty) and 21/12c and 21/13a (Crathes) of the UKCS. Scolty was discovered in 2007 by well 21/8-3 and Crathes was discovered in 2011 by well 21/13a-5. We have a 50%

working interest in each of Scolty and Crathes and are the operator of both. Our interest in Scolty/Crathes is governed by licenses P1107/1617, which expire on September 30, 2029 and February 11, 2035, respectively.

The Scolty/Crathes development received regulatory approval and was sanctioned by us in the second half of 2015 and consists of single horizontal wells, equipped with gas lift, drilled in each of the Scolty and Crathes fields. The fields are tied back to the Kittiwake platform, in the Greater Kittiwake Area, where the fluids are processed and the oil exported to shore via the Forties pipeline system. On November 21, 2016, we delivered first oil from Scolty/Crathes.

Average net production for the six months ended June 30, 2022 was 2,395 boepd.

Recent developments

A planned 11-day shutdown was completed three days ahead of schedule, with the asset back online in August of 2022.

Alba

Production Facility	Alba Northern platform
Working Interest (%)	8.0
Operator	Ithaca Oil and Gas Limited
Field Partner	Ithaca Oil and Gas Limited, Waldorf Production, NEO Energy, Mitsui E&P UK Limited and Spirit Energy
Decommissioning liability	As per working interest

Alba is located in block 16/26a in the UKCS, approximately 209 kilometers northeast of Aberdeen, Scotland. Alba was discovered in 1984 and first produced oil in 1994. Ithaca Energy is the operator of the Alba oil field. Our interest in Alba is governed by license P213, which expires on cessation of production.

The field includes 25 active platform production wells, 6 platform injector wells and 10 subsea production wells with 2 subsea injector wells. There is also one suspended subsea well. The Alba Northern offshore platform is located in the northern area of the oil field, and there are two subsea manifolds located in the south of the field that are tied back to the platform. Oil is exported from the Alba Northern platform by offload tankers and delivered to onshore oil terminals.

During the six months ended June 30, 2022, production performance at Alba continued in line with our expectations. Average net production for the six months ended June 30, 2022 was 518 boepd.

Recent developments

The partners expect to begin a continuous 2023-2024 drilling program during the first quarter of 2023. The first wells from this program are expected to come online during 2023.

Bressay

Production Facility	N/A
Working Interest (%)	40.8
Operator	EnQuest
Field Partners	Harbour Energy, Equinor
Decommissioning liability	N/A

In January 2021, we completed the transaction to acquire a 40.8% interest and operatorship in the Bressay oil field, from Norwegian oil company Equinor, which retains a 40.8% interest in the field. The remaining 18.4% interest is held by Harbour Energy.

Bressay is a heavy oil field east of the Shetland Islands, approximately 12 kilometers northeast of the Kraken field. Discovered in 1976, Bressay is believed to be one of the largest undeveloped oil fields in the UKCS, with approximately 115 MMbbls of net 2C Resources. Bressay is estimated to have stock-tank oil initially in place ("**STOIIP**") of approximately 1,000 MMbbls.

During 2021, detailed analysis of existing reservoir data and an assessment of potential development options, one of which is a potential tie back to Kraken, continued with strong partner engagement throughout. We are working with our partners to progress field development studies.

Bentley

Production Facility	n/a
Working Interest (%)	100.0
Operator	EnQuest
Field Partners	n/a
Decommissioning liability	n/a

In July 2021, we completed the transaction to acquire a 100.0% equity interest in the P1078 license containing the proven Bentley heavy-oil discovery from Whalsay Energy Holdings Limited ("**WEL**"). Upon completion, we funded certain accrued costs and obligations of WEL, which amounted to less than $2 million.

Bentley is a heavy oil field in the U.K. North Sea located in 113 meters water depth, 15 kilometers east of the Kraken heavy oil field and 8 kilometers southeast of the Bressay field, both of which are operated by EnQuest. Bentley is one of the largest undeveloped oil fields in the UKCS with the current operator estimating STOIIP of approximately 900 MMbbls and we reported net 2C resources of 131 MMbbls as at December 31, 2021.

The initial evaluation of the development potential commenced in the first quarter of 2022, with the Bentley project team primarily focused on re-evaluation of the existing subsurface data.

Malaysia

Our Malaysian operations include the PM-8 Extension PSC, comprising the PM8 and Seligi fields, and the Block PM409 PSC, located off the east coast of the Malaysian peninsular.

Below is an overview of each of the assets included in our Malaysian operations, including recent developments and performance.

PM8/Seligi

	PM-8 including North Raya, South Raya, Lawang, Langat, Yong and Serudon producing fields	**Seligi**
Location	Offshore Malaysia	Offshore Malaysia
Production Facility	Raya Alpha, Raya Bravo, Lawang, Serudon platforms	Seligi platforms (Alpha, Bravo, Charlie, Delta, Echo, Foxtrot, Golf, Hotel)
Working Interest	50.0	50.0
Operator	EnQuest	EnQuest
Field Partners	PETRONAS Carigali Sdn. Bhd.	PETRONAS Carigali Sdn. Bhd. (40.0%) E&P Malaysia Venture Sdn. Bhd. (10.0%)
Decommissioning liabilities	As per working interest	EnQuest is liable for legacy (pre-2014) Seligi petroleum facilities decommissioning of 1.8% of the actual decommissioning cost during the PSC term. For newly installed petroleum facilities, EnQuest is liable as per working interest. For 2022 well abandonment work, EnQuest is liable for 2.6% as per working interest. Decommissioning costs will be drawn down from the abandonment fund.

Overview

We assumed operatorship in October 2014 and the overall transition was completed in December 2014. Our interest in PM8/Seligi is governed by the PM8/Seligi PSC, which expires on March 31, 2033. We achieved payback on our initial cash consideration following the acquisition of PM8/Seligi within 12 months.

The production sharing contract for PM8/Seligi covers a group of oil fields, including the producing Seligi oil field. The Seligi oil field is located in the Malay basin, approximately 240 kilometers offshore from Peninsular Malaysia in a water depth of 73 meters. The field was discovered in 1971 through the Seligi-1 exploration well, and a total of 11 appraisal wells were drilled to delineate the fields. First oil at Seligi oil field was achieved in 1988. The Seligi oil field encompasses approximately 80 square kilometers and was developed via two central processing platforms and seven satellite wellhead platforms which were installed between 1988 and 2001. A total of more than 230 wells have been drilled to date.

PM8 comprises six developed fields: Lawang, Langat, Serudon, North Raya, South Raya and Yong. PM8 fields together encompass approximately 20 square kilometers. PM8 fields are developed via four unmanned minimum facility wellhead platforms (installed between 1998 and 2001) which are linked back to the Seligi central processing facility. A total of 22 wells have been drilled to date.

After separation, crude oil from PM8/Seligi is transported via the Tapis platform (operated by ExxonMobil) to the Terengganu Crude Oil Terminal (operated by PETRONAS Carigal Sdn Bhd) for processing and sale to the domestic market or export.

Following the assumption of operatorship, we safely improved production performance through a number of initiatives, including idle well restoration activities, low cost well interventions, facility projects and process simplification to improve plant reliability and production efficiency. In each of 2018 and 2019, we drilled two new production wells to offset underlying natural declines. Overall, we have added 10 MMbbls to our 2P Reserves from our 2C Resources using the idle well restoration program at a cost of less than $8/bbl.

In the six months ended June 30, 2022, the Malaysian operations produced an average of 6,304 boepd, a 31.1% increase from an average production of 4,809 boepd in the six months ended June 30, 2021. Production efficiency in the six months ended June 30, 2022 remained high at 93%. This increase was driven by the riser pipeline replacement during the first quarter of 2022 and completion of three out of the four workovers planned in 2022.

In December 2021, the new riser pipeline was successfully laid on the seabed, although final completions were delayed by the late arrival and subsequent availability of the third-party dive support vessel. The riser pipeline was fully installed and commissioned in the first quarter of 2022.

Recent developments

The fourth workover was completed in July, and in aggregate the four workovers were delivered with production in line with expectations. We also successfully executed a three-well P&A campaign at PM8/Seligi. In recognition of this workover and P&A performance, we received three Petronas Recognition Awards centered on a commitment to safety, application of new technology to leverage efficiencies in schedule and cost savings.

Following the mobilization and installation of the drilling rig at the Seligi-C satellite platform, and the drilling of a pilot hole during June, the infill drilling campaign has commenced with our first horizontal well at PM8/Seligi being brought on stream in July, with higher than expected initial production rates. The drilling rig subsequently mobilized to the Seligi-D satellite platform, where two more horizontal wells are expected to be delivered in 2022.

We have sanctioned a three well infill drilling program in 2023, in alignment with the established asset strategy. We also continue to discuss options with PETRONAS around the potential development of the material gas resource at PM8/Seligi. PM8/Seligi has a long-term gas opportunity of more than 3.5 tcf gas initially in place ("**GIIP**").

Block PM409

Production Facility	n/a
Working Interest (%)	85.0
Operator	EnQuest
Field Partners	PETRONAS Carigali Sdn. Bhd.
Decommissioning liability	n/a

Overview

In December 2019, we were awarded a production sharing contract for Block PM409. The block is in a proven hydrocarbon area containing several undeveloped discoveries and is contiguous to the existing PM8/Seligi PSC, providing low-cost tie-back opportunities to the existing Seligi main production hub. The partners are committed to the drilling of one well within the initial four-year exploration term of the PSC. Under the joint operating agreement, we have a contractual obligation to spend at least $7.7 million until 2023 in connection with drilling of the wells and review of the hydrocarbon potential.

During 2021, we completed geotechnical studies in preparation for future appraisal drilling.

Recent developments

A proposed exploration well has been identified. We have a commitment to drill the exploration well by the end of the PM409 exploration period, which ends in December 2023.

U.K. Decommissioning

Our decommissioning directorate manages the decommissioning programs for assets that have ceased production and our mature producing assets which are between one and five years from cessation of production.

The timely transfer of assets to the directorate allows for effective end of life field management and the development of relevant decommissioning programs. Our U.K. Decommissioning directorate oversees the safe and efficient execution of these work programs and is committed to delivering them in a responsible manner, which includes minimizing emissions and maximizing the recycle and reuse of recovered materials.

Following Cessation of Production ("**CoP**") at Alma/Galia, the Dons, and Broom, preparations continue ahead of the anticipated commencement of subsea well P&A and infrastructure removal at all three fields, with the target to be execution-ready by the end of 2023.

Heather/Broom

	Heather	Broom
Location	Offshore, UKCS,	Offshore, UKCS
Production Facility	Heather A platform	Heather A platform
Operator	EnQuest	EnQuest
Field Partners	BG Great Britain Limited, Harbour Energy	MOL GROWEST (I) Limited, MOL GROWEST (II) Limited and Ithaca Minerals (North Sea) Limited
Decommissioning liabilities (%)	37.5(1)	63.0

(1) Our decommissioning liability for Heather as acquired is 37.5%, with 100.0% decommissioning liability for any developments we undertook from acquisition to cessation of production.

Heather and Broom are adjacent oil fields that were produced through Heather Alpha, a fixed steel offshore platform, with Broom connected via a subsea tieback.

In February 2020, we confirmed we would not restart production from the Heather field following production being shut down in late 2019. The cessation of production application at Heather was accepted by the regulator in June 2020, reducing our share of costs from 100.0% to 37.5% and allowed decommissioning to commence.

The Heather P&A campaign is progressing well with six wells completed at Heather as at June 30, 2022.

Recent developments

The well P&A program is ongoing and we remain on track to complete the P&A of 16 wells by the end of 2022. The tender process for heavy lift vessels for Heather topsides and jacket removals has concluded. Contracts to complete this scope, which has a scheduled window between 2024 and 2026, are expected to be awarded in the second half of 2022. We are aware of increased competition in the heavy lift vessel market, with the evolution of several large-scale renewable projects being sanctioned by the governments of European countries and have moved to manage execution of heavy lift scope within multi-year windows in order to retain flexibility and mitigate availability concerns.

In October, we are anticipating entering into a statutory consultation process with regard to the Heather upper jacket decommissioning program.

Thistle/Deveron

	Thistle	Deveron
Location	Offshore, UKCS,	Offshore, UKCS
Production Facility	Thistle Alpha platform	Thistle Alpha platform
Operator	EnQuest	EnQuest
Field Partners	Britoil Limited, Harbour Energy	Britoil Limited, Harbour Energy
Decommissioning liabilities	We are liable for the decommissioning costs associated with investment since we assumed operatorship, with the balance remaining with the former owners. Following the exercise of the Thistle decommissioning options in January and October 2018, we will undertake the management of the physical decommissioning of Thistle/Deveron and are liable to make payments to BP by reference to 7.5% of BP's decommissioning costs of Thistle/Deveron, which equates to 6.1% of the gross decommissioning costs.	

With the field having been shut-in since October 2019 due to a proactive safety-related shutdown as a result of a deterioration in the condition of a metal plate connecting one of the redundant subsea storage tanks to the facility's legs being identified during the ongoing subsea monitoring and inspection program, in March 2020, we announced we no longer expect to re-start production at the Thistle field. A cessation of production application was approved by the regulator in June 2020, with an effective decommissioning date of May 31, 2020. Our share of post-tax costs have reduced to 6.1% (from 99.0%).

The first phase of the platform rehabilitation was successfully completed in June 2021, in line with expectations. The subsea integrity campaign concluded in September 2021 and platform reactivation and hydrocarbon removal was completed in October 2021. The Thistle P&A campaign is progressing well with nine wells completed in the six months ended June 30, 2022.

Recent developments

The well P&A program is ongoing, and we remain on track to complete the P&A of 16 wells by the end of 2022. The tender process for heavy lift vessels for Thistle topsides and jacket removals has concluded. Contracts to complete this scope, which has a scheduled window between 2024 and 2026, are expected to be awarded in the second half of 2022. We are aware of increased competition in the heavy lift vessel market, with the evolution of several large-scale renewable projects being sanctioned by the governments of European countries and have moved to manage execution of heavy lift scope within multi-year windows in order to retain flexibility and mitigate availability concerns.

Alma/Galia

	Alma	Galia
Location	Offshore, UKCS	Offshore, UKCS
Production Facility	N/A	N/A
Operator	EnQuest	EnQuest
Field Partner	KUFPEC	KUFPEC
Decommissioning liabilities	65.0	65.0

The Alma and Galia fields were re-developed as a single joint development, revitalizing reservoirs where production had previously been shut-in, and tied back to the EnQuest Producer FPSO vessel.

On June 30, 2020, cessation of production occurred as planned. As of the date of this Offering Memorandum, the EnQuest Producer FPSO remains in warm stack at Nigg.

The Dons

	Don Southwest	West Don	Conrie	Ythan
Location	Offshore, UKCS	Offshore, UKCS,	Offshore, UKCS	Offshore, UKCS
Production Facility	N/A	N/A	N/A	N/A
Operator	EnQuest	EnQuest	EnQuest	EnQuest
Field Partners	Ithaca Energy (UK) Limited	Ithaca Energy (UK) Limited	Ithaca Energy (UK) Limited	Ithaca Gamma Limited
Decommissioning liabilities	**60.0**	**78.6**	**60.0**	**60.0**

The Dons are a collection of offshore oil fields that were produced via subsea tiebacks to the Northern Producer Floating Production Facility.

At the Dons, production in 2020 was impacted by a lack of gas lift which is no longer available from Thistle, combined with underlying natural declines. As such, preparations commenced in 2020 for the field to cease production. Following regulatory approvals in February 2021, cessation of production activities concluded in March 2021. The Northern Producer floating production facility was used for initial decommissioning activities, such as flushing of the subsea infrastructure and to support implementation of effective well isolations. These activities have now been completed and the vessel has departed the field and been handed back to its owner. The North Sea Transition Authority recently recognized the floating production facility off station project as an example of exemplary execution and best-in-class performance in the North Sea for prompt asset removal, reduction of post-cessation of production operation expense and CO_2 reduction.

The subsea infrastructure removal of the 500-meter zone is progressing in line with expectations, with two phases completed during the first half of the year, and the final phase scheduled for completion in September 2022.

Infrastructure and New Energy

Our Infrastructure and New Energy operations include our onshore Sullom Voe Terminal, the East of Shetland Pipeline System ("**EOSPS**"), which transports purchased gas from the BP sweetening facility to Magnus, the Ninian Pipeline System ("**NPS**"), which transports crude oil to the Sullom Voe Terminal, and the Northern Leg Gas Pipeline ("**NLGP**"), which transports natural gas via the Brent A platform into the U.K. National Transmission System. Through this segment we are assessing and delivering new energy opportunities to create a hub of growth in infrastructure and renewables through the repurposing of the Sullom Voe Terminal ("**SVT**") and associated infrastructure. We are developing cost-effective and efficient plans to transform the terminal and prepare and repurpose the site to progress decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen. The terminal site offers several unique competitive advantages, including a 1,000-acre industrial site with access to existing oil and gas pipeline infrastructure, deep water port and jetties, the highest wind capacity factor across Europe, and a highly-skilled workforce and local supply chain. Having secured exclusivity from the Shetland Islands Council to progress new energy opportunities on the site, we believe we are well placed to deliver on our new energy ambitions in cooperation with our potential strategic delivery partners and are currently exploring strategic operational and financial partnerships. At this stage, our strategy is to unlock these opportunities in a capital light manner with single digit million expenditure per annum, leveraging our infrastructure and support from strategic and financial partners.

Sullom Voe Terminal

Overview

The Sullom Voe Terminal ("**SVT**") is a 1,000 acre brownfield industrial Control of Major Accident Hazards ("**COMAH**") site with 16 crude oil storage tanks (of which ten are currently operational) and four 24 meters deep jetties accepting very large crude carrier ("**VLCC**")-sized vessels (of which two are currently operational). Each jetty at SVT can accommodate different ship types in the range of 30,000 to 350,000 deadweight tons. SVT currently receives oil by pipeline from the oilfields of its customers in the East Shetland Basin and the Deep waters West of Shetland, which is then stored in the crude oil storage tanks and later exported via the jetties. SVT was commissioned in 1978 and receives East of Shetland oil via the Brent Pipeline System, which services Brent, Alwyn and TENCCA, and the NPS, which services Ninian and Magnus. Since 1998, the terminal has also provided services to West of Shetland fields, including Schiehallion, Clair and Foinaven, whereby gas from these three fields is "sweetened" at the Sullom Voe Terminal before being shipped to Magnus for onward export. The terminal also now processes condensate from the Laggain-Tormore development.

On December 1, 2017, we completed the acquisition of an additional 3.0% interest in the Sullom Voe Terminal (bringing our interest to 6.0%) and assumed operatorship of the Sullom Voe Terminal (all as part of the same transaction whereby we obtained our initial 25.0% interest in Magnus). On December 1, 2018, we acquired a further 9.1% interest from BP bringing our total interest to 15.1%. In connection with the transfer of Thistle to BP and Chrysaor in 2021, we transferred a total of 2.1% to those parties, reducing our total interest to 13.0%. Since taking over operatorship at the Sullom Voe Terminal, we have worked in close collaboration with all our stakeholders to optimize safely and sustainably the size and scale of plant required to ensure the terminal continues to meet existing and future customer needs.

During the second quarter of 2020, a major milestone was achieved in bringing Jetty 3 back into operation after almost seven years, with safe operations maintained throughout project delivery. The reintroduction of operations at the jetty provides us with additional capacity which helps to ensure greater service availability for customers.

Recent developments and performance

At the Sullom Voe Terminal and its related infrastructure, the delivery of safe and reliable performance enabled 100% service availability during the six months ended June 30, 2022.

Having secured exclusivity from the Shetland Islands Council to progress new energy opportunities at SVT, we believe we are well placed to deliver on our new energy ambitions in cooperation with our potential strategic delivery partners and are currently exploring strategic operational and financial partnerships. Further details on progress are below:

Carbon Capture and Storage

The availability of the deep-water port and jetties and a pipeline network linked to several well-understood offshore reservoirs presents the opportunity to repurpose infrastructure to import and permanently store material quantities of CO_2 from isolated emitters in the UK, Europe or further afield.

We have conducted initial phases of feasibility and economic screening work in respect of this carbon storage concept. These studies have indicated the capability of the existing infrastructure, including the EnQuest operated East of Shetland pipeline system, and storage sites to support a project of up to 10 million tonnes per annum of CO_2. In May 2022, we made two carbon capture and storage ("**CCS**") license area nominations in locations which are both accessible from our existing infrastructure. These were both accepted and we made two applications in respect of these license areas in the NSTA UK offshore CCS licensing round, which closed on September 13, 2022 with results expected to be announced in the first quarter of 2023.

Electrification

We are assessing the potential to leverage our existing infrastructure and subsea projects expertise to facilitate the electrification of nearby offshore oil and gas assets and planned developments by way of a grid connection supplemented with renewable power. This would lead to significant emissions reductions for platforms which are expected to operate into the 2050's. In addition, we are also currently assessing onshore wind potential and a new low-carbon power solution for the Sullom Voe Terminal, which has the potential to significantly reduce our carbon footprint.

Green Hydrogen

We are exploring the potential for repurposing areas of the existing SVT site and harnessing the advantaged and otherwise stranded natural wind resource around Shetland for the production of green hydrogen and derivatives at export scale to provide a low carbon alternative fuel which could help to decarbonize a number of industries.

Pipelines

We purchased the associated pipelines when we acquired our operating interests in the producing Magnus asset and the onshore Sullom Voe Terminal in Shetland. These pipelines are of strategic importance.

The NPS, where we have an 18.1% share, the NLGP, where we have a 43.9% share and the EOSPS, where we have a 100.0% share, gather production from approximately 18 fields in the North Sea and deliver oil and gas to onshore terminals at Sullom Voe and St Fergus.

During the year ended December 31, 2021, we made good progress undertaking the planned repair and remediation work on delivery infrastructure relating to Kraken, Magnus and Thistle, in addition to in-line pipeline inspection evaluations at GKA.

Competition

The oil industry is competitive, and we compete with a substantial number of other companies, many of which have greater resources than we do. Many of these companies explore for, produce and market oil and natural gas, carry on refining operations and market the resulting products on a worldwide basis. Our competitors include national oil and gas companies, major international oil and gas companies and independent oil and gas companies. The oil and gas business is highly competitive in the search for and acquisition of reserves, in the procurement of rigs and other production equipment, in the production and marketing of oil and gas and in the recruitment and employment of qualified personnel. See "*Risk factors—Risks relating to the oil and gas industry—We carry out business in a highly competitive industry*."

In addition, we compete with oil and gas companies in the bidding for production licenses, farm-ins and other contractual interests in licenses that are made available by governments or are for sale by third parties. Competition for such assets is likely to come from companies already present in the region in which the production licenses are located as well as new entrants. Competition also exists between producers of oil and natural gas and other industries producing alternative energy and fuel, such as solar and wind.

Furthermore, competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the governments of the jurisdictions in which we operate. It is not possible to predict the nature of any such legislation or regulation that may ultimately be adopted or its effects upon our future operations. Such legislation and regulations may, however, substantially increase the costs of developing, producing, marketing or exploring for natural gas and oil and may prevent or delay the commencement or continuation of a given operation. The effect of these risks cannot be accurately predicted. See "*Risk factors—Risks relating to our business— Our business is subject to licensing and other regulatory requirements, which are subject to change, in the countries in which we operate, and we are subject to the risks of licenses or other agreements being withheld, suspended, revoked or terminated and of our failing to comply with relevant licenses, agreements or other regulatory requirements*."

Product lifting and distribution

Petroleum from Magnus is transported to the Sullom Voe Terminal through the Ninian Pipeline System. Purchases of third-party gas from West of Shetland fields and produced gas is transported through the Northern Leg Gas Pipeline system and FLAGS to the St Fergus SEGAL gas plant; dry gas is exported to the National Transmission System and natural gas liquids ("**NGLs**") are transported to Mossmorran for processing.

As part of our acquisition of working interests in the Magnus asset in December 2017 and 2018, we acquired an equity interest in the Sullom Voe Terminal bringing our total equity interest to 15.1% by December 2018. In connection with the same transactions, we acquired an additional equity interest of 15.3% in the Ninian Pipeline system, bringing our total equity interest in the Ninian Pipeline system to 18.1%, including the 2.7% equity interest we had in the Ninian Pipeline system through Heather. Finally, we also acquired 43.9% equity working interests in the Northern Leg Gas Pipeline ("**NLGP**") in connection with the 2017 and 2018 acquisition of Magnus working interests, bringing our total equity in the NLGP to 51.1%. Following the retransfer of Thistle to Britoil and Chrysaor, which included a 7.2% interest in NLGP, our equity interest in the NLGP is 43.9%. Also in connection with the Thistle retransfer, our equity interest in the Sullom Voe Terminal reduced to 13.0%.

Our participation in these pipeline systems and the Sullom Voe Terminal is regulated by various operating agreements, and we hold working interests in these assets. The costs of maintaining and operating these facilities are shared among the users thereof on a throughput-related basis. We are party to a cross-user liability agreement that provides indemnities between the various groups of owners and between the individual owners for injury or damage caused by the performance or non-performance of their obligations in respect of the Sullom Voe Terminal, the Ninian Pipeline System and the Brent system pipeline. See "*Risk factors—Risks relating to our business—Significant expenditure is required to maintain operability and operations integrity, we rely upon infrastructure which is old and/or operated and owned by third parties, and improper maintenance and repair could harm our operations*."

Petroleum from Alba, where we hold a minority interest, is transported by offload tanker from the Alba Northern platform to onshore terminals. With respect to production from the Greater Kittiwake Area and Scolty/Crathes, we hold a working interest in an offshore platform at Kittiwake and a 100% interest in a pipeline linking this platform to the Forties Unity platform. The Greater Kittiwake Area and Scolty/Crathes fields are tied via subsea infrastructure to the offshore platform at Kittiwake. Petroleum from the platform at Kittiwake is transported via pipeline to the Forties Unity platform where it is then transported to shore at Cruden Bay via the Forties Unity pipeline system. The petroleum is taken from Cruden Bay to Grangemouth for further processing.

Production from PM8/Seligi is transported via the Tapis platform (operated by ExxonMobil) to the Terengganu Crude Oil Terminal (operated by PETRONAS Carigali Sdn. Bhd.) for processing and sale.

With respect to Kraken, the Kraken FPSO is connected to wells via subsea infrastructure. Offload tankers transport produced oil from the Kraken FPSO to buyers.

Crude oil from the Golden Eagle Development Area is processed on the platform and then transported through the Golden Eagle pipeline to the Claymore line, where it is then routed to the Flotta system and processed into stabilized Flotta Gold blend at the Flotta Terminal. Gas is currently exported from the platform to the Ettrick 'T' piece and pipeline into the SAGE system for processing and sales at St. Fergus.

Sales and customers

Our entitlement to Brent oil (from Magnus) is made available for sale at the Sullom Voe Terminal. Our entitlement to Forties Blend crude oil (from GKA and Scolty/Crathes) is made available for sale at the Kinneil Oil Terminal through the Forties Pipeline System ("**FPS**") to Cruden Bay. Our entitlement to Flotta Gold blend crude oil is made available for sale at the Flotta Terminal and our Malaysian production is made available for sale at the Terengganu Crude Oil Terminal. Production from Kraken and Alba is lifted by tanker, provided by Altera Infrastructure and delivered to the relevant buyer.

Our oil sales for our UKCS assets (excluding Kraken) are primarily priced based on the Platts Dated Brent crude oil benchmark with differentials to the benchmark determined by market conditions and negotiations with customers. Kraken cargo sales continue to be optimized into the shipping fuel market with Kraken oil a key component of IMO 2020 compliant low-sulphur fuel oil. As such, we benefit from strong pricing associated with the VLSFO market and avoid refining-related emissions. Prices for our Malaysian oil sales are set by the Malaysian OSP, which is generally a significant premium to the Platts Dated Brent benchmark. A Tapis differential is then applied to the Malaysian OSP and further differentials are negotiated with customers.

As of December 31, 2019, 2020 and 2021, we had trade receivables past due of $2.4 million, $2.6 million and $0.2 million, respectively.

As of December 31, 2021, we had one customer accounting for 84% of outstanding trade and other receivables (2020: three customers, 77%; 2019: four customers, 84%) and one joint venture partner accounting for 20% of joint venture receivables (2020: one joint venture partner, 16%; 2019: two joint venture partners, 26%).

With Kraken's suitability as a component for the production of IMO 2020 compliant shipping fuel, i.e. VLSFO, we have continued to diversify our customer base by selling our production lifted by tanker and delivering to buyers via ports in Northwestern Europe, the United States, the Mediterranean and/or the Far East.

Supplies and third party contractors

We rely on the services of various contractors in the performance of our activities, including drilling and related operations.

Field and commercial partners

The majority of our assets are owned, explored and developed through commercial partnerships with international, national and private equity-backed oil and gas companies. When we evaluate whether to enter into a commercial partnership or joint venture, we seek prospective commercial partners who will complement our existing strengths. We conduct thorough business and financial diligence on all our prospective commercial partners and strive to ensure they will be able to finance their portion of any development.

During the life-cycle of the commercial partnership or joint venture, we often have a very active role in the technical, financial and administrative management of operations including in situations in which we do not take on an official operator role. We typically maintain involvement with many aspects of operations and work closely with our commercial partners to ensure that we continue to comply with the ongoing obligations under the licenses or agreements pursuant to which we operate. For a discussion of certain risks associated with our reliance on commercial partners, see "*Risk factors—Risks relating to our business—We conduct most of our operations with commercial partners which may increase the risk of delays, additional costs and the suspension or termination of the licenses or the agreements that govern our assets*."

In relation to the Golden Eagle Acquisition, we will work alongside an established UKCS operator and aim to contribute positively to the existing joint venture partnership with our proven expertise/capability in drilling and subsea tie-backs.

Seasonality

Seasonal weather conditions (particularly winter in the UKCS and monsoon season in Malaysia) and lease stipulations can limit our drilling and producing activities and other oil and natural gas operations in certain areas. These seasonal anomalies can increase competition for equipment, supplies and personnel during the spring and summer months, which can lead to shortages and increase costs or delay our operations. These seasonal anomalies may also reduce the available weather windows for offloading operations to shuttle tankers from our FPSO's. See "*Risk factors— Risks relating to the oil and gas industry—We face drilling, exploration and production risks and hazards that may affect our ability to produce oil at expected levels, quality and costs and that may result in additional liabilities to us*."

Health, safety, environment and assurance

We are subject to a wide range of laws, regulations, directives and other requirements governing the protection of the environment and health and safety matters. See "*Risk factors—Risks relating to our business—We could incur material costs to comply with, or as a result of liabilities under, health and safety and environmental regulations*." One of our top priorities is to achieve and maintain high health, safety and environmental performance. We believe that we have robust management systems, a culture of positive engagement and a commitment to continuous improvement. We are committed to respecting the people and environments that our business may affect, and we aim to operate our business to achieve safe results, with no harm to people or the environment. To achieve this, we aim to manage our business in compliance with legislation and industry standards, maintain high-quality systems and processes and seek to maintain safe and healthy workplaces. See also "*Management—Code of conduct*."

Health and safety

To help ensure that we maintain safe and healthy workplaces for all our employees and contractors, the group-wide health, safety, environment and assurance system is structured in line with ISO 14001 and covers occupational and process safety. We have a Health & Safety Management System that is aligned with the requirements of the Occupational Health and Safety Assessment Series Standard (OHSAS 18001:2007) while the framework of the management system in Malaysia complies with the Offshore Self-Regulation Management System ("**OSRMS**") and PETRONAS Procedures and Guidelines for Upstream Activities ("**PPGUA**") requirements. See "*Risk factors—Risks relating to our business—We could incur material costs to comply with, or as a result of liabilities under, health and safety and environmental regulations*."

Each of our U.K. assets are inspected periodically by the Health and Safety Executive. There is one open improvement notice on one of our assets. On Magnus, the health and safety executive issued an improvement notice in relation to the draining of liquid hydrocarbons to open hazardous drains. Although control arrangements were in place, the regulator wanted to see a reduction in the frequency of drainage being undertaken and an engineering solution to remove the manual draining. This will be rectified by October 2022 in accordance with the accepted plan.

On October 14, 2019, a change out of lube oil took place on the Heather KT03 compressor. During this operation a fire and explosion occurred resulting in two individuals suffering injuries and equipment damage. The Health and Safety Executive issued a prohibition notice on the Heather compression system causing a loss of production. An in-depth investigation was conducted and the relevant learnings incorporated. The prohibition notice has since been suspended due to the asset ceasing production and entering decommissioning.

In September 2020, there was a detachment of the riser system at the Selig Alpha platform, which provides gas lift and injection to the Seligi Bravo platform. This resulted in a release of gas and a subsequent fire which initiated an automatic emergency shutdown of the PM8/Seligi field. Our safety systems and emergency response procedures were successfully implemented, with the fire extinguished quickly and all personnel on-board mustered safely. Following an initial internal investigation and safety assessment, as well as an investigation by the regulator, partial operations were able to be recommenced within two days, with wells flowing under natural pressures.

Our Health, Safety and Environment policy is fully integrated across our operated sites. There is a strong assurance program in place to ensure we comply with our policy and principles and regulatory commitments.

In 2020, an independent safety review was undertaken that reported positively on our safety culture with a recognition of a strong commitment towards safety and robust processes in place. However, following a number of asset integrity related incidents, a group-wide asset integrity review team was formed that looked at integrity management arrangements at a group, regional and asset level to drive improvements in 2021. All in depth activities of the asset integrity review were completed by August 2021 with additional reviews being undertaken in October and November on Kittiwake and Kraken to provide further assurance of asset integrity management arrangements. The asset integrity review continues to contribute in a positive manner by providing a deeper understanding of areas of improvement and good practice. The key focus through 2022 has been ensuring that the actions from the findings are implemented in a sustained manner and the learnings from the increased levels of collaboration/ engagement are incorporated into future business planning cycles ensuring threats and opportunities are reviewed.

Environmental

Environmental protection has been a core feature of our business model since its inception, with our priority being safe results with no harm to people and respect for the environment. As an oil and gas business, we are focused on safely improving the operating, financial and environmental performance of mature and late-life assets.

We have in place an Environmental Management System ("**EMS**") to ensure our activities are conducted in such a way that we manage and mitigate our impact on the environment.

Our system is aligned with the requirements of the International Organization for Standardization's environmental management system standard—ISO 14001. Our EMS was verified under The Convention for the Protection of the Marine Environment of the North-East Atlantic OSPAR Recommendation 2003/5 and applicable guidance in May 2020.

We recognize that industry, alongside other key stakeholders such as governments, regulators and consumers, must contribute to reducing the impact on climate change of carbon-related emissions. Our aim is to benefit all of our stakeholders as a responsible operator of oil and gas assets through the expected multi-decade energy transition. Our aim is to safely extend production lives, enhance cash flow and reduce Scope 1 and Scope 2 emissions on our assets as reliance on hydrocarbons is reduced, thereby contributing towards the national emission reduction targets.

To balance all stakeholder interests, we believe a measured approach to absolute Scope 1 and 2 emissions reductions involving credible targets and the pursuit of economic emission reduction opportunities is appropriate. See "*Risk factors—Risks relating to the oil and gas industry—Climate change legislation, the transition to net zero greenhouse gas emissions by 2050 and/or protests and shareholder actions against fossil fuel extraction may have a material adverse effect on our industry*."

During the years ended December 31, 2018, 2019, 2020 and 2021, our emissions in kilo-tones of CO_2 equivalent were 1,802.4, 1,511.6, 1,342.8 and 1,145.3, respectively. We have already reduced our U.K. absolute Scope 1 and 2 CO_2 equivalent emissions by approximately 44% since 2018, through our decisions to cease production at our Heather/Broom, Thistle/Deveron, Alma/Galia and the Dons assets combined with operational improvements driving lower flaring and diesel usage in 2021.

In addition to reducing upstream-related emissions, we have also implemented an innovative, economic emissions avoidance opportunity at Kraken by optimizing sales of Kraken cargoes directly to the shipping fuel market. This initiative has two environmental benefits: it avoids emissions related to refining; and it also helps reduce sulphur emissions in accordance with the IMO 2020 regulations. The avoidance of emissions related to Kraken's crude is significant—with refining emissions for a typical North Sea crude estimated to be approximately 32 to 36 $kgCO_2e/bbl$ compared to emissions associated with blending Kraken oil estimated at approximately 1 $kgCO_2e/bbl$. As such, emissions relating to Kraken oil by the time it reaches its end user, compares favorably on a fully-refined basis to even high-performing North Sea fields.

We aim to reduce absolute Scope 1 and 2 CO_2 equivalent emissions from our existing operations, from a 2020 baseline, by 10% over the period 2021 to 2023. This target has been included as a key performance metric in our long-term incentive scheme for executive directors and applicable employees. To help achieve this target, a number of emission reduction opportunities have been identified, such as flare ignition improvement through online monitoring and automated ignition on Magnus. However, we recognize that improved environmental performance requires continued investment. The Infrastructure and New Energy business is responsible for delivering our emission reduction objectives through optimizing performance of existing assets and advancing renewable energy and decarbonization opportunities. In our Infrastructure and New Energy business, we continue to develop cost-effective and efficient plans to transform the Sullom Voe terminal and prepare and repurpose the site to progress decarbonization opportunities at scale, focused on carbon capture and storage, electrification and green hydrogen. The terminal site offers several unique competitive advantages, including a 1,000-acre industrial site with access to existing oil and gas pipeline infrastructure, deep water port and jetties, the highest wind capacity factor across Europe, and a highly skilled workforce and local supply chain. Having secured exclusivity from the Shetland Islands Council to progress new energy opportunities on the site, the Group is well placed to deliver on its new energy ambitions in cooperation with our potential strategic delivery partners and are currently exploring strategic operational and financial partnerships. We have conducted initial phases of feasibility and economic screening work in respect of a carbon storage concept. These studies have indicated the capability of the existing infrastructure, including the EnQuest operated East of Shetland pipeline system, and storage sites to support a project of up to 10 million tonnes per annum of CO_2, which is a multiple of our existing emissions footprint.

As other major oil companies and operators continue to shift their focus away from mature basins in a number of geographies, we believe that there will be further opportunities for us to access additional oil and gas resources However, time and careful consideration will be taken to find the right opportunities where EnQuest can deliver incremental emission reductions relative to the carbon footprint in the hands of the seller. We also factor in an appropriate associated carbon price into the acquisition economics, even in markets where no carbon trading or pricing mechanism exists. We can make a positive contribution towards the future of North Sea oil and gas through doing our part in ensuring that each asset is in the right hands.

Emissions management is an important feature during the decommissioning phase of an asset's life-cycle. During this phase, wells will need to be plugged and abandoned, while the production and processing facilities and any relevant infrastructure will need to be removed. Given the extent of this work, it will necessarily take place over an extended period of time and require careful project management. Our U.K. Decommissioning directorate will oversee the safe and efficient execution of these work programs and is committed to delivering them in a responsible manner, which includes minimizing emissions and maximizing the recycle and reuse of recovered materials. Our U.K. Decommissioning directorate continues to work with a variety of stakeholders to identify creative ways, such as alternative power generation options, as installed on the Thistle asset, in which emissions associated with decommissioning activities can be kept to a minimum.

We recognize the increasing societal, media and investor focus on climate change, and the desire to understand its potential impacts on the oil and gas industry through improved disclosure, utilizing mechanisms such as those proposed by the Taskforce on Climate-related Financial Disclosures ("**TCFD**"). We provide information relevant to each of the four TCFD recommendations (Governance, Strategy, Risk Management, Metrics and Targets) on our website and annual report and will continue to evolve these disclosures over time.

Assurance

We strive for continuous improvement in our HSEA performance. We periodically audit and review our HSEA management system, to help ensure compliance with all applicable regulations, as well as our policies, principles, processes and procedures, and to identify areas for improvement.

Our risk-based audit and assurance program is designed to measure the conformance and effectiveness of HSEA management across all operations, including contractor and supplier organizations as applicable. This was enhanced through 2022 with improved planning, action monitoring and cross asset sharing of findings, addressing the requirements of an HSE improvement notice received in December 2021, which is now closed. Other assurance activities are also periodically conducted to ensure that we learn, and proactively identify areas to improve our HSEA performance.

Insurance

We maintain the types and amounts of insurance coverage that we believe are consistent with customary industry practices in the jurisdictions in which we operate. Our oil and gas properties and liabilities are insured within an operational energy insurance package. Coverage under the terms of this insurance package includes physical damage, operators extra expense (well control, seepage, pollution clean-up and re-drill) and third-party liabilities. Coverage is placed in respect of scheduled worldwide oil and gas exploration and production activities. We believe limits and deductibles in force for us are in line with applicable oil industry insurance standards.

We currently have a loss of production insurance policy in place which would protect revenues anticipated to be derived from net Kraken forecast production at an oil price of $40.00/bbl (which is capped at a limit of 24 months' production) if there is a loss of production caused by an insured event for a period up to two years, with such cover commencing 60 days after the insured event which caused the loss of production. The loss of production policy was renewed on May 6, 2022 and is due to expire on May 6, 2023. Where applicable, construction all risks insurance coverage is procured in respect of development projects. Such coverage is generally for works executed anywhere in the world in performance of contracts where we are at risk including loss of, or damage to, the pipeline systems, risers, umbilicals, oil wells and completions to be installed and liabilities to third parties arising therefrom.

Our philosophy is to arrange such other insurance from time to time in respect of our other operations as required and in accordance with industry practice and at levels which we feel adequately provide for our needs and the risks that we face. We have not had any material claims under our insurance policies that would either make them void or materially increase their premiums. There can be no assurance, however, that our insurance coverage will adequately protect us from all risks that may arise or in amounts sufficient to prevent any material loss. See "*Risk factors—Risks relating to our business—We do not insure against certain risks and our insurance coverage may not be adequate for covering losses arising from potential operational hazards and unforeseen interruptions*."

Employees

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we employed 1,123, 823, 785 and 776 full-time employees, respectively.

The following table sets forth our full-time employees as of December 31, 2019, 2020 and 2021 and as of June 30, 2022.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
Directors	8	9	8	7
Operational (onshore)	355	315	302	312
Operational (offshore)	590	423	385	380
Corporate	22	20	21	18
Contractors(1)	148	56	69	59
Total	1,123	823	785	776

(1) Excluding contractors who are employed through a third-party service company.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
United Kingdom	910	629	582	570
Malaysia	175	170	174	176
Dubai	38	24	29	30
Total	1,123	823	785	776

We believe that we have satisfactory working relationships with our employees and have not experienced any significant labor disputes. Save in respect of Sullom Voe Terminal, there is no unionization currently in place for our employees at any of our locations and we have not suffered any labor disputes or stoppages. However, in March 2020, the union UNITE announced that 94% of members voted for strike action at the Sullom Voe Terminal in response to certain proposals, including changes to the pension scheme. The strike action was called off on March 20, 2020. We may be subject to work stoppages or other labor disturbances, and our employees may become unionized. See "*Risk factors— Risks relating to our business—We may be subject to work stoppages or other labor disturbances*, *and our employees may become unionized*."

We remain committed to providing an inclusive culture that recognizes and celebrates difference, encourages diversity of thought and embraces new ways of working to create an environment that enables the development of creative solutions to deliver performance and value. Our diversity and inclusion ("**D&I**") strategy, developed during the first quarter of 2021, is now embedded in the overall strategy of the business, alongside the D&I policy. 'Conscious inclusion' training has been provided to managers to help them recognize and overcome bias, while recruitment processes are being evolved to encourage a broad spectrum of applicants. Our 'EnQlusion' committee promoted a number of initiatives during 2021, including continued support for the Association for Black and Minority Ethnic Engineers, International Women in Engineering Day and the U.K.'s AXIS Network. We were delighted to be nominated as one of three finalists for the 2021 OGUK Diversity & Inclusion Award, from over 90 applications submitted from across the industry. Recognition as a finalist has further reinforced our commitment to the strategy and our direction of travel in relation to D&I. An employee 'pulse' survey was conducted over the summer focusing on D&I at EnQuest. Metrics relating to inclusion scored more strongly than those directly related to diversity, demonstrating that a continued focus is required to ensure a truly diverse workforce. A further D&I survey was launched in August 2022 to measure our progress.

Targets have also been set for gender and ethnicity representation in leadership, with a target of 30% women in both leadership roles and management grades across the business, and 15-20% minority ethnic representation in executive leadership roles, with targets to be achieved by 2025.

With D&I central to ways of working, we continue to challenge our recruitment, employment and training policies and how they attract, retain and develop a wide range of talent in the organization.

Since reporting commenced in 2017, there has been a significant narrowing of our gender pay gap statistics, with the gap related to the average rate of total pay for women reducing from 38.7% in 2017 to 22.0% in 2021. Although it is disappointing that between 2020 and 2021 the gap widened slightly, from 20.8% to 22.0%, this was a direct result of the strategic business transformation process undertaken during 2020 and the resulting change in the shape of the workforce in line with business needs.

We remain committed to narrowing the gender pay gap and striving to provide equal pay for equal jobs. This will be achieved through an ongoing focus on D&I in all aspects of the business. In addition to a fair and balanced recruitment and promotion process with regular skills assessments, appropriate action is taken from feedback received from the employee forum and the global employee engagement survey results, as we continue to embed our diversity and inclusion strategy throughout the organization.

We also remain committed to fair treatment of people with disabilities in relation to job applications and, as set out in the Equal Opportunities & Dignity at Work Policy, we encourage individuals with a disability, or who develop a disability at any time during their employment, to speak to their line manager about their condition. This will enable us to provide support and prevent unfavorable treatment.

Bribery laws

We are committed to behaving fairly and ethically in all of our endeavors and have policies which cover anti-bribery and corruption, including consolidated anti-bribery policies in light of the U.K. Anti-Bribery Act, Malaysian Anti-Corruption Commission Act and related guidance. We have implemented group-wide training on these policies. The overall anti-bribery and corruption program is reviewed annually by the Board and a corruption risk awareness email is sent out annually by the Chief Executive reminding staff of their obligations and also to prompt them to complete a mandatory online anti-corruption training course. Staff are also regularly reminded of their obligations with regard to anti-bribery and corruption and anti-facilitation of tax evasion through the annual risk awareness email issued by the Chief Executive, our Code of Conduct and the obligatory annual anti-bribery and corruption and anti-facilitation of tax evasion training course.

We also encourage staff to escalate any concerns and, to facilitate this, provide an external "speak-up" reporting line which is available to all staff in the U.K., Malaysia and the UAE. Where concerns are raised, these are investigated by our General Counsel and reported to the Audit Committee.

Legal and arbitration proceedings

We become involved from time to time in various claims and lawsuits arising in the ordinary course of our business.

We are currently engaged in a dispute with PBJV Group Sdn Bhd ("**PBJV**"), a contractor in Malaysia concerning approximately RM70 million (being approximately $17 million of which our partner would be obliged to bear 50% of any such liability) claimed by PBJV which we do not accept is due. The matter will move to arbitration for a determination in November 2022. The dispute originally arose in late 2019 and relates to the payment of garnet as a separate chargeable consumable. The timing of the completion of this dispute is currently unknown by us, however we do not consider that an adverse outcome in this dispute is likely to be material to our operations or cash flows. See "*Risk factors—Risks relating to our business—Our operations are subject to the risk of litigation*."

On March 1, 2018, a hydrocarbon release occurred on our Heather platform without the flare being lit, which led to a release of uncombusted flammable hydrocarbon gas and an accumulation of gas on the platform. On March 18, 2018, the Health and Safety Executive ("**HSE**") issued an enforcement notice regarding this incident, with which EnQuest complied and had removed. The HSE have yet to provide a timeline for their decision as to whether to make a recommendation to the Crown Office and Procurator Fiscal Service for consideration for prosecution. The Heather platform has ceased production and we have responded to all of HSE's requests for information to date.

On December 22, 2021, the U.K. Regulator informed us in writing that they intend to investigate the restart of production and resumption of flaring without the U.K. Regulator's consent in writing. An internal legally privileged investigation was undertaken, which is focused on (i) how we operationally found ourselves exceeding the Magnus flare consent (including the root causes of failures in the relevant procedures and tools) and (ii) the internal management decision making process and the U.K. Regulator's engagement. Both investigations have now concluded, with the U.K. Regulator informing EnQuest in August that it considers it appropriate to sanction the Group in the form of a financial penalty totaling £150,000. This level of sanction was deemed appropriate given our positive and open engagement with the regulator throughout the incident and subsequent investigation, and the steps taken internally following our own investigation to prevent any reoccurrence. As of the date of this Offering Memorandum, there is one open instance of non-compliance with health and safety regulation. This one open improvement notice is on the Magnus asset and relates to the draining of liquid hydrocarbons to open hazardous drains. Although control arrangements were in place, the regulator wanted to see a reduction in the frequency of drainage being undertaken and an engineering solution to remove the manual draining. This issue will be rectified by October 2022, in accordance with the accepted plan. The previous improvement notice in respect of pipework at the Sullom Voe Terminal, which was identified as susceptible to microbial corrosion, has been rectified in accordance with the accepted plan. The improvement notice issued on Magnus regarding assurance arrangements has been rectified in accordance with the accepted plan. However, there can be no assurances that we will not incur material costs in the future, including clean-up costs, civil and criminal fines, penalties and sanctions and third-party claims, including for personal injury, wrongful death and environmental and property damages, and other environmental, health and safety claims under contract, as a result of violations of our obligations under environmental, health and safety requirements. See "*Risk factors—Risks relating to our business—We could incur material costs to comply with, or as a result of liabilities under, health and safety and environmental regulations*."

Material agreements relating to our assets

In this section, where a defined term is used in reference to various contracts, it has the meaning for the relevant sub-section in which it is defined.

U.K. Upstream

Kraken agreements

We acquired our interests in the Kraken development through (a) the acquisition of Canamens Energy North Sea Limited ("**CENSL**") (including its 20% working interest) and (b) the January 24, 2012 farm-in agreement with Nautical Petroleum Limited ("**Nautical PLC**") and Nautical Petroleum AG (together with Nautical Limited, "**Nautical**") for a 25% working interest. Further to the CENSL acquisition, we are obligated to indemnify Canamens Limited against all decommissioning liabilities.

Additionally, on December 20, 2013, EnQuest Heather Limited (in its capacity as the Kraken operator) entered into a bareboat charter with the Kraken field owners (as charterers) and Armada Kraken PTE. Ltd. ("**Armada**"). Armada agreed, among other things, to construct, and perform the installation, commissioning and hook-up of, the Kraken FPSO at the Kraken field and thereafter charter the Kraken FPSO to the charterers (including, among others, EnQuest Heather Limited and EnQuest ENS Limited). Interest holders in Kraken are also subject to a joint operating agreement dated September 29, 2006. The Kraken joint operating agreement establishes a joint operating committee to prepare and approve programs, budgets and authorizations for expenditures proposed by the operator. The joint operating committee makes decisions with the affirmative vote of two or more interest holders whose aggregate interests total at least 71%. We have a 70.5% interest in Kraken and therefore cannot exercise unilateral control over operations at Kraken.

Magnus agreements

On January 24, 2017, a special purpose vehicle wholly owned by us (the "**SPV**") and BP Exploration Operating Company ("**BPEOC**") entered into a sale and purchase agreement pursuant to which SPV acquired a 25% interest. Completion of SPV's acquisition of the 25% interests (and transfer of operatorship of the Magnus Assets from BPEOC to SPV) occurred on December 1, 2017. Under the Magnus sale and purchase agreement ("**Magnus SPA**"), BPEOC agreed to be liable for and to indemnify SPV against any decommissioning liabilities arising in respect of any property attributable to the 25% interests in existence before completion under the Magnus SPA and three infill wells which are planned to be drilled as part of the three year work program and budget planned for the Magnus field. SPV agreed to be liable for and to indemnify BPEOC against decommissioning liabilities arising in respect of any property attributable to the 25% interests that comes into existence on or after completion under the Magnus SPA (subject to certain carve-outs which will be treated as existing property). SPV also agreed to be liable for and to indemnify BPEOC against all environmental liabilities relating to the 25% interests (whether arising before, on or after completion under the Magnus SPA) (subject to certain limited carve outs). On completion of the Magnus SPA, SPV entered into the Magnus joint operating agreement and certain security documents in relation to the 25% interests. SPV is the operator under the Magnus joint operating agreement ("**Magnus JOA**"). Joint operations under the Magnus JOA are divided into four phases. The Magnus JOA establishes a joint operating committee which is responsible for, among other things, approving programs and budgets submitted to the joint operating committee by the operator. Save for certain reserved matters which require the unanimous approval of all participants entitled to vote (including authorizing the operator to prosecute or defend litigation outside the United Kingdom, waiving the notice period for calling a meeting of the joint operating committee, any decision to abandon the joint operations and any matter or decision relating to decommissioning), the joint operating committee may approve decisions in accordance with the Magnus JOA, depending on the phase of the Magnus joint operations.

On December 1, 2018, we completed the acquisition from BP of the remaining 75% interest in the Magnus oil field, an additional 9% in the SVT and supply facility and other additional interests in associated infrastructure.

The total consideration for the Magnus Acquisition comprised \$100.0 million cash consideration and \$200.0 million deferred consideration financed by BP plc. With an effective date of January 1, 2017, the deferred consideration was adjusted for the interim period and working capital adjustments, resulting in contingent consideration of \$116.5 million as of December 1, 2018. The outstanding amount of deferred consideration was repaid in full in July 2021. The consideration also included a contingent profit sharing arrangement whereby we and BP plc share the net cash flow generated by the 75% on a 50:50 basis, subject to a cap of \$1 billion received by BP plc. Together, the deferred consideration and contingent profit sharing arrangement are known as the "**Magnus Contingent Consideration**."

Golden Eagle Development Area agreements

On February 4, 2021, we entered into an agreement with Suncor Energy UK Limited ("**Suncor**") to purchase Suncor's entire 26.7% non-operated equity interest in the Golden Eagle Development Area. The acquisition of Golden Eagle was completed on October 22, 2021.

Interest holders in the Golden Eagle Development Area are subject to a joint operating agreement dated October 31, 2011 and the amendment agreements thereto. The Golden Eagle Development Area joint operating agreement established an operating committee to prepare and approve all programs, budgets and expenditures proposed by the operator. The joint operating committee makes decisions and authorizations for expenditures of at least two parties whose interests total more than 60% (with certain reserved matters with a passmark of 85%). We have a 26.7% interest in the Golden Eagle Development Area.

Greater Kittiwake Area agreements

On October 21, 2013, we entered into an agreement with Centrica North Sea Oil Limited ("**Centrica**") to acquire its 50% working interest in each of the Kittiwake, Mallard, Goosander, Gadwall and Grouse fields in the Greater Kittiwake Area. The agreement also includes a 50% interest in the Duck and Eagle prospect. The acquisition of the Greater Kittiwake Area assets was closed on March 1, 2014.

Interest holders in the Greater Kittiwake Area are subject to a joint operating agreement dated January 12, 2004 and the amendment agreements thereto. The Greater Kittiwake Area joint operating agreement establishes a joint operating committee to prepare and approve programs, budgets and authorizations for expenditures proposed by the operator. The joint operating committee makes decisions with the affirmative vote of two or more interest holders whose aggregate interests total more than 75%. We have a 50% interest in the Greater Kittiwake Area and therefore cannot exercise unilateral control over operations at the Greater Kittiwake Area.

Alba agreements

Interest holders in Alba are subject to a joint operating agreement dated October 10, 1990. Chevron is the appointed operator under the agreement. The agreement establishes an operating committee that approves all production, development, exploratory and decommissioning operations plans. As an interest holder under the agreement, we have the right and obligation to take in kind and separately dispose of our percentage interest share in the total quantities of produced oil. The operator may make monthly cash calls in pounds sterling and dollars. The operator is also not liable to any interest holders for any act or omission in conducting field operations, unless such act or omission was the result of reckless or willful misconduct on the part of the operator.

Bressay Oil Field agreement

On July 30, 2020, EnQuest Heather Limited entered into a sale and purchase agreement with Equinor UK Limited ("**Equinor**") to purchase a 40.81% operating interest in the Bressay oil field, which was completed in January 2021. The initial consideration paid pursuant to the Bressay oil field agreement was: (i) $1 which was deemed paid at the date of the Bressay oil field agreement; (ii) £2.2 million (approximately $3.0 million converted at a rate of $1.3630 to £1.00) payable as a carry against 50.0% of Equinor's net share of costs from completion; and (iii) subject to certain conditions, an additional $30.0 million.

EnQuest Heather Limited has certain obligations to indemnify Equinor including:

(a) if Equinor incurs any obligations after the date which completion under the Bressay oil field agreement occurs, EnQuest Heather Limited shall reimburse Equinor in respect thereof; and

(b) if EnQuest Heather Limited accrued any benefits prior to the date which completion under the Bressay oil field agreement occurs, EnQuest Heather Limited shall reimburse Equinor in respect thereof.

Malaysia

PM8/Seligi agreements

On June 13, 2014, EQPPM entered into a sale and purchase agreement for the purchase of ExxonMobil's 50% interest in the Seligi field and its 80% interest in the PM8 field, offshore Malaysia (although EQPPM's interest in the PM8 field reduced to 50% from July 1, 2014 pursuant to the joint operating agreement). EQPPM also agreed to purchase ExxonMobil's 50% interest in the gas rights available for sale from the PM8 producing fields. Pending completion of the acquisition, ExxonMobil agreed to provide EQPPM with transitional services to continue operating PM8 and Seligi until December 15, 2014, following which EQPPM took over full operatorship from ExxonMobil. EQPPM agreed to pay a consideration of $67.0 million for the interests with only $24.7 million cash consideration ultimately paid upon completion.

EQPPM's interest in the PM8 and Seligi fields is held pursuant to a production sharing contract with PETRONAS Carigali Sdn. Bhd., E&P Malaysia Venture Sdn. Bhd. (as contractors) and PETRONAS dated December 10, 2014 (the "**PM8/Seligi PSC**"). Under the PM8/Seligi PSC, EQPPM, as the appointed operator, is required to perform petroleum operations in accordance with an annual work program and budget which is approved by PETRONAS. The PM8/Seligi PSC establishes an operations committee for the purposes of managing operations and approving the work program and budget. Revenues from production under the PM8/Seligi PSC are firstly set aside for payments to the Malaysian state and then applied to the contractor's cost recovery, both up to a specified percentage. The additional revenues are divided based on a contractor's profitability. EQPPM's profitability is determined using the R/C index. The R/C index is the ratio of contractor's cumulative revenue over contractor's cumulative costs. Under the PM8/Seligi PSC, EQPPM, as a contractor, gets a higher share of production when its profitability is low and PETRONAS' share of production increases when EQPPM's contractor's profitability increases.

The contractors are required to pay annual decommissioning fees to PETRONAS based on annual production, estimated cost and estimated remaining production, which is cost recoverable, and also to facilitate the decommissioning of the facilities in accordance with an agreed program and budget approved by PETRONAS. The PM8/Seligi PSC expires on March 31, 2033.

EQPPM entered into a joint operating agreement on December 10, 2014 in respect of PM8/Seligi. From July 1, 2014 onwards, participating interests are held: 50% by EQPPM, 40% by PETRONAS Carigali Sdn. Bhd. and 10% by E&P Malaysia Venture Sdn. Bhd. The role of operator is assigned to EQPPM (the "**PM8/Seligi JOA**"). The agreement establishes a management committee charged with the supervision and direction of operations and approving work programs and budgets. The management committee makes decisions with the affirmative vote of two or more interest holders (who are not related companies) whose aggregate interests total at least 65%. As EQPPM has a 50% interest, it cannot exercise unilateral control over operations. Pursuant to this agreement, and a subsequent extension, EQPPM agreed to bear all costs of the interest holders (of at least $12 million) between June 26, 2014 and June 26, 2017 in relation to drilling one exploration well or one appraisal well.

PM409 agreements

On December 3, 2019, EQPPM entered into a production sharing contract ("PM409 PSC") with PETRONAS Carigali Sdn. Bhd. (the "**PM409 JOA**"), each as PM409 PSC contractors (the "PM409 Contractors"), and PETRONAS for the exploration, development and production of Block PM409, Malaysia for a period of 28 years. On December 3, 2019, we also entered into a joint operating agreement entered in respect of PM409 with PETRONAS Carigali Sdn. Bhd. Pursuant to the PM409 PSC and the PM409 JOA, the interests of the PM409 Contractors are 85% held by EQPPM and 15% held by PETRONAS Carigali Sdn. Bhd. EQPPM is the operator appointed to manage the petroleum operations of the area. The PM409 PSC imposes a contractual obligation upon the PM409 Contractors to drill one wildcat well with depth of not less than 2,100 meters and to review the hydrocarbon potential and prospects of the PM409 area for a total spend of at least $7.7 million, all of which are to be completed before the expiration of the 4 year exploration period, which expires on December 3, 2023. Failure to find any crude oil of a commercial quantity or to make a discovery of non-associated gas within the exploration period shall cause the PM409 area to be relinquished to PETRONAS, unless PETRONAS approves of any extension to the same.

U.K. Decommissioning

Heather/Broom agreements

EnQuest Heather Limited's decommissioning liability in respect of the Heather field is 37.5% (correlating to its ownership interest), save that EnQuest Heather Limited has 100.0% decommissioning liability for all material decommissioning costs over and above those which would have been incurred had decommissioning been carried out on October 1, 1999.

On December 22, 2014, a decommissioning security agreement in respect of the Heather field was entered into whereby the decommissioning obligations of the owners of the Heather field are regulated and which includes an obligation on each party thereto to provide security in respect of their respective decommissioning obligations. The cessation of production application for the Heather field was accepted by the regulator in March 2021. EnQuest Heather Limited remains the operator of the Heather Field.

EnQuest Heather Limited's decommissioning liability in respect of the Broom Field is 63.0% (correlating to its ownership interest).

On June 28, 2018, a decommissioning security agreement in respect of the Broom field was entered into whereby the decommissioning obligations of owners of the Broom field are regulated and which includes an obligation on each party thereto to provide security in respect of their respective decommissioning obligations. The cessation of production application for the Broom field was accepted by the regulator in March 2021. EnQuest Heather Limited remains the operator of the Broom field.

Thistle/Deveron agreements

On January 1, 2003, Dunlin Thistle Limited (now EnQuest Thistle Limited), acquired from Britoil Public Limited Company ("**Britoil**") and Conoco (U.K.) Limited (now Chrysaor Production (U.K.) Limited) ("**Chrysaor**"), *inter alia* a 99% interest in the Thistle and Deveron fields (the "**Thistle Interests**"). The Thistle Interests were later transferred to EnQuest Heather Limited. On March 25, 2021, the Thistle Interests were re-transferred to Britoil and Chrysaor but EnQuest Heather Limited retained operatorship of both fields and continues to be so.

Pursuant to the terms of the decommissioning liability agreement dated January 1, 2003 (as amended on December 9, 2020 moving the decommissioning obligations to a post-tax basis), EnQuest Heather Limited's decommissioning liability in respect of the Thistle and Deveron Fields is 0% save that EnQuest Heather Limited has 99% decommissioning liability for property installed between January 1, 2003 and March 25, 2021. Each of Britoil and Chrysaor are required to provide security for their respective decommissioning obligations. EnQuest Heather Limited is obliged to provide security for its decommissioning obligations to the extent that these are in excess of £5 million. EnQuest Heather Limited is liable to reimburse Britoil for 7.5% of its share of decommissioning costs relating to the Thistle and Deveron fields, which equates to 6.1% of the gross decommissioning costs.

The cessation of production application for the Thistle and Deveron fields was accepted by the regulator.

Alma/Galia agreements

EnQuest Heather Limited's decommissioning liability in respect of the Alma and Galia fields is 65% (correlating to its ownership interest).

On February 2, 2021, a decommissioning security agreement in respect of the Alma and Galia fields was entered into whereby the decommissioning obligations of the owners of the Alma and Galia fields are regulated and which includes an obligation on each party thereto to provide security in respect of their respective decommissioning obligations. The cessation of production application for the Alma and Galia fields was accepted by the regulator with a cessation of production date of June 2020.

Don fields agreements

EnQuest Heather Limited's decommissioning liability in respect of the Don fields is as follows:

- Ythan field – 60% (correlating to its ownership interest);
- Don Southwest & Conrie fields – 60% (correlating to its ownership interest); and
- West Don field – 78.6% (correlating to its ownership interest).

On September 30, 2020, a decommissioning security agreement in respect of each of the Don fields were entered into whereby the decommissioning obligations of the owners of the Don fields are regulated and includes an obligation on each party thereto to provide security in respect of their respective decommissioning obligations.

The cessation of production application for the Don fields was accepted by the regulator with a cessation of production date of March 2021. EnQuest Heather Limited remains the operator of the Don fields.

Infrastructure and New Energy

Sullom Voe Terminal agreements

EnQuest Heather Limited is a party to the amended Sullom Voe Terminal operating agreement dated December 17, 2019 (the "**Amended SVTOA**"), which amended and restated the original Sullom Voe Terminal operating agreement dated April 21, 1999. The Amended SVTOA governs the rights and obligations in relation to the ownership and management of SVT, including the procedure for managing capacity in SVT, the procedures for allocating oil and gas produced at SVT, decommissioning responsibilities and the negotiation of tariff agreements.

The SVTOA establishes a terminal management committee to, among other things, consider and approve programs, budgets and authorizations for expenditure. A majority of the decisions of the terminal management committee are made by an affirmative vote of at least 25% of the total SVT owners whose aggregate equity in SVT amounts to at least 70%. However, there are some decisions which require a higher threshold. Decisions to approve authorization for expenditure in excess of £2 million requires an affirmative vote of 85% of all SVT owners. Decisions relating to decommissioning and the removal of the SVT operator without cause require an affirmative vote of at least 95% of all SVT owners. In addition, decisions including those relating to the disclosure of information outside of the confidentiality provisions, entering into agreements relating to tariffed production (which requires approval from all participating owners), the amendment of terminal regulations and the amendment of associated agreements requires unanimous approval. EnQuest Heather Limited has 13.0% interests in SVT and thus cannot exercise unilateral or negative control over operations at SVT, unless the decision requires unanimity.

The SVT operator is EnQuest Heather Limited. Subject to the overall supervision of the terminal management committee, the operator has the exclusive right to carry out all operations and activities relating to the operation, maintenance and decommissioning of SVT and receives a small management fee for providing its services, in addition to amounts received from SVT owners to meet operating costs. The SVT operator is also responsible for the negotiation of all tariff agreements, on behalf of the SVT owners, with non-SVT owner third parties wishing to deliver production to SVT.

The Amended SVTOA will terminate on the earliest of (i) 24:00 hours on August 31, 2025; (ii) the date on which operations of SVT permanently cease; and (iii) the date with effect from which the owners unanimously agree to terminate the agreement.

REGULATION

Like other participants in the industry, we are subject to various laws and regulations administered by local, national, supranational and other government entities, and similar agencies in the United Kingdom, in the European Union and in the other countries in which we operate. The oil and gas industry is subject to extensive laws in these jurisdictions that are subject to change. These laws have a significant impact on oil and gas exploration, development, production and marketing activities, and could potentially increase the cost of doing business, and consequently, affect profitability. Some of the legislation and regulation affecting the oil and gas industry in the United Kingdom and in the other jurisdictions in which we operate carry significant penalties for failure to comply and can result in other liabilities and claims. While we may for any such liabilities incur fines, penalties or other sanctions, costs or claims, we believe that we are currently in substantial compliance with all material governmental laws and regulations affecting our business and maintain all material permits and licenses relating to our operations. Because the enactment of new laws affecting the oil and gas business is common and because existing laws are often amended or reinterpreted, we are unable to predict with certainty the future cost or impact of complying with such laws. We do not expect that any of these laws would affect us in a materially different manner than any other similarly sized oil company operating in the jurisdictions in which we conduct our business. See "*Risk factors—Risks relating to the oil and gas industry*."

From time to time, we receive notices and inquiries from regulatory authorities and others asserting that we are not in compliance with such laws and regulations. In some instances, litigation may ensue. In addition, individuals may initiate litigation against us. See "*Our business—Legal and arbitration proceedings*."

Oil and gas production regulations in the United Kingdom, the European Union and in the other jurisdictions in which we operate include laws related to location of wells, drilling and casing of wells, well production limitations; spill prevention plans; surface use and restoration; platform, facility and equipment removal; the calculation and disbursement of royalties; the plugging and abandonment of wells; bonding; permits for drilling operations; environmental, health and safety matters; and production, severance and ad valorem taxes. Oil and gas companies may encounter delays in drilling as a result of bureaucratic processes and requirements for obtaining relevant permits and other authorizations. Our operations are subject to regulations governing operation restrictions and conservation matters, including provisions for the unitization or pooling of oil and natural gas properties in straddling fields, the establishment of maximum rates of production from oil wells, and limiting flaring or venting of natural gas. These conservation laws have the effect of limiting the amount of oil we can produce from our wells and limiting the number of wells or the locations at which we can drill.

Below is a summary of certain key legal and regulatory regimes that we operate under in the United Kingdom, where the majority of our assets are located. For a discussion of certain risks associated with the legal and regulatory regimes in the countries under which we operate, see "*Risk factors—Risks relating to our business*."

United Kingdom

The Crown possesses all title and rights to petroleum located in the United Kingdom and its territorial waters, which includes the UKCS. Consequently, the legal regime established in the United Kingdom for the exploration for, and exploitation of, oil and gas provides for the transfer of the Crown's rights to explore for and exploit oil and gas to licensees.

The licensing system

Oil and gas exploration and production activities in the UKCS are governed primarily by the Petroleum Act 1998, as amended from time to time (the "**Petroleum Act**"). The Petroleum Act vests ownership of the petroleum resources in the U.K. sectors of the North Sea in the Crown and gives the Secretary of State the authority to grant licenses that confer on the licensee for a limited time the right to search for and bore for and get petroleum in the areas governed by the license. Pursuant to the Energy Act 2016 (the "**Energy Act**"), the authority to grant such licenses, together with certain other functions, were transferred from the Secretary of State to the U.K. Regulator.

The Energy Act implements a number of recommendations from Sir Ian Wood's *UKCS Maximizing Recovery Review: Final Report*, including one of its key recommendations which was the creation of a new arm's-length body to regulate UKCS oil and gas recovery, with this body having a remit (and the necessary powers) to deliver the MER U.K. strategy (the "**MER U.K. Strategy**"). The principal objective of this MER

U.K. Strategy is maximizing economic recovery of UKCS oil and gas. The U.K. Regulator exercises its powers within this context.

Companies are required to obtain a license prior to commencing any exploration or production activities. Licenses are usually awarded through competitive licensing rounds generally held every other year and conducted by the U.K. Regulator, although in exceptional circumstances licenses may be granted by the U.K. Regulator outside of the ordinary licensing rounds. The U.K. Regulator invites applications for each licensing round, which covers specific acreage. Licenses may be awarded to individual companies or to several companies collectively. "**Out-of-round applications**" may be made by a prospective licensee to the U.K. Regulator with compelling reasons such as urgency, temporary availability of a drilling rig or no prospect of competition. However, certain procedures must still be followed in respect of such applications according to the specified timeframe, including an invitation for applications being published in the London, Edinburgh and Belfast Gazettes at least 90 days in advance of the award of the relevant license.

The U.K. Regulator maintains discretion in the granting of licenses, which is exercised to ensure the maximum economic recovery of the resources and considers other factors as well, such as protection of the environment. Each license carries an annual rental charge due on the anniversary date of the grant of the license (except pre-20th round seaward production licenses, which were only due in their initial year). Rental fees are charged and determined by evaluating the number of square kilometers covered by the license. In addition, yearly levies are applied against UKCS licenses in order to provide the primary funding for the U.K. Regulator's activities. As part of the application process, the U.K. Regulator and the licensee agree a work program of exploration activity for the initial term of the license.

Offshore licenses

The U.K. Regulator awards different types of offshore licenses (each a "**U.K. License**"): with the main distinction being seaward exploration licenses, and seaward production licenses. A seaward production license can be a traditional license, frontier license or a promote license. From the 29th Licensing Round, all new seaward production licenses have been classified as Innovate Licenses ("**Innovate Licenses**").

Seaward exploration license

The U.K. Regulator grants seaward exploration licenses to enable seismic surveys, shallow drilling and coring to 350 meters to be carried out in open acreage that is not covered by a production license. These licenses are non-exclusive in that other parties may also hold a seaward exploration license in respect of the same area and typically carry an initial three-year term with the possibility of extension for a further three years.

Seaward production license

A seaward production license is an exclusive license which enables the licensee(s) to search for, bore for and extract petroleum resources in the UKCS within the licensed area for a defined period of time. Separate consents are required prior to drilling and development. Each seaward production license runs for a maximum of three successive terms: the initial term, the second term and the third term. The licensee can only move on to the next term if certain requirements are met during the previous term. A seaward production license usually carries a total term of between 26 and 31 years, although it can be longer for a frontier license. The U.K. Regulator may allow a license to continue if the field is still producing at the end of the original term.

The conditions of seaward production licenses are predominantly contained in "model clauses" applicable at the time of the issue of the license, although additional restrictions or provisions may also be contained in the particular license. The model clauses govern matters such as the grant of the rights, the terms and conditions applicable to each of the three periods of a license and the requirement to relinquish a certain proportion of the license area, the regulation of work programs and development plans, measurement, records and access, working methods, pollution and training. The model clauses also give the U.K. Regulator the power to direct or restrict certain of the licensee's activities, including prohibiting a licensee from carrying out development or production activities other than with the consent of the U.K. Regulator, or in accordance with a government-approved development plan. A license may be revoked by the U.K. Regulator for a number of reasons set out in the model clauses, including if the licensee fails to comply with the requirements of the license.

Under a seaward license, the U.K. Regulator approves the appointment of an operator. The operator under the license organizes or supervises all the development and production operations associated with the license. Licensees are also subject to the requirements of the Petroleum Act governing the decommissioning of facilities, including the requirement to produce and agree a decommissioning plan at a future date and, if required, to provide financial security for decommissioning costs.

Depending on the type of license, licensees in the UKCS are required to relinquish (or give up) a significant section of their license area after a prescribed period has elapsed. The purpose of this requirement is to ensure that operations conducted in the UKCS are conducted in as efficient and cost effective manner as possible.

As mentioned above a seaward production license may be either a traditional license, frontier license, promote license or innovative license.

Traditional license

A traditional license has three terms, with the first two terms each lasting four years and the third term lasting 18 years. At the end of the first four-year term, the license will only move into the second four-year term if a specified work program (which may consist of an agreed combination of acquiring seismic data, processing seismic data, committing to drill a well or conducting other exploration or development activities), is completed and at least 50% of the acreage covered by the license has been relinquished. During the second four-year term, a development plan must be approved by the U.K. Regulator and all acreage outside the development area must be relinquished. If the development plan is not approved, the license will expire. The 18-year third term covers the producing life of the field. Applicants must prove their technical, environmental and financial capacity before being awarded a traditional license.

Frontier license

A frontier license usually has a six-year exploration phase and is designed to allow companies to screen large areas that are remote or otherwise difficult to explore. The initial term is split into a two-year period and a four-year period, with a special mandatory relinquishment of 75% of the acreage covered by a frontier license after the first two-year term and a further mandatory relinquishment at the end of the initial term of fifty percent of the remainder (leaving 12.5% of the original license area remaining under license). At the end of the initial term, the licensee must have fully completed the work program agreed for the license. This work program may include a "drill-or-drop" requirement (that is, if a decision to drill an exploration well is not taken, the license area must be relinquished). In exceptional circumstances, the U.K. Regulator may grant an extension to the initial two-year term, for example, in circumstances where uncharacteristically extreme weather conditions delay seismic acquisition during the first year. There is an additional variant to the frontier license designed for the West of Shetland environment providing a nine-year initial term.

Promote license

The promote license is designed to allow smaller companies to obtain a production license before having the necessary operating and financial capacities. Although a promote license is similar to a traditional license, the required financial, technical and environmental capacity and a firm commitment to drill a well to undertake an agreed equivalent substantive activity, need only be in place by the end of the second year of the license. At the end of this two-year period, the licensee faces a "drill-or-drop" decision on the license where the licensee must either submit a further work program to retain the license or relinquish the license. If the further work program is approved, the license continues for the remaining period of the two-year initial term, at which point there is a requirement to relinquish 50% of the acreage, and for a second four-year term on the same terms as a traditional license.

Offshore innovate license

The innovate license replaces several earlier types of seaward production licenses: the traditional, promote and frontier licenses. The innovate license offers greater flexibility in the durations of the initial and second terms (which was the main difference from the older license types) and an applicant for an innovate license is able to propose the durations of the initial and second terms.

The initial term can now be subdivided into up to three phases, with the work program being correspondingly divided:

- Phase A is a period for carrying out geotechnical studies and geophysical data reprocessing;
- Phase B is a period for undertaking seismic surveys and acquiring other geophysical data; and
- Phase C is for drilling.

Phases A and B are optional and depend on the applicant's plans. Every work program must have at least a phase C (just as a drilling commitment was the minimum work program before the innovate concept).

It remains the case that a license may only continue from the initial term into the second term if (among other things) the initial term work program has been completed and 50% of the initial acreage has been surrendered. Similarly, an innovate license may only continue from one phase into another if that part of the term work program associated with the earlier phase has been completed and if the licensee has committed to complete that part associated with the next. When continuing into phase C, the licensee must also demonstrate the technical and financial capacity to carry out the phase C part of the work program.

In special cases where an applicant doesn't propose any exploration at all and proposes to develop an existing field discovery or redevelop a field, a License may be awarded with no initial term; this is called a 'straight to second term' license. This option was also available before the innovate concept.

Innovate License term length:

Initial term:	Variable with maximum of nine years
Second term:	Four years
Third term:	18 years
Mandatory relinquishment at end of initial term:	50%

Licensing rounds

Most seaward production licenses are awarded through regular licensing rounds. Licenses are awarded pursuant to a review by the U.K. Regulator of each applicant's technical understanding of the acreage requested and the applicant's proposed work program. The 32nd Offshore Licensing Round closed on November 12, 2019 with 113 license areas over 260 blocks or part-blocks being offered to 65 companies on September 3, 2020. Details of the 33rd Offshore Licensing Round have not yet been issued.

Out-of-round licenses

In exceptional circumstances, the U.K. Regulator may formally invite an applicant to apply for a license outside of the regular licensing rounds. The applicant must convince the U.K. Regulator of its case for an out-of-round license. A case for an out-of-round license generally requires that the applicant show that waiting for the next licensing round would cause unnecessary delay to activities under an existing license, and that being awarded an out-of-round license would avoid that delay, or that broad competition for the license is not feasible during a licensing round. The U.K. Regulator will not award out-of-round licenses for pure exploration or where an applicant simply prefers not to wait for the next licensing round. If the U.K. Regulator formally invites an applicant to apply for an out-of-round license, the applicant completes the application in the same manner as applying for a license during a licensing round.

License holders

A U.K. License may be held by a single license holder or by a number of entities collectively. We hold our interests under the majority of our U.K. Licenses with other parties. However, in such cases, each of these entities' obligations, responsibilities and liabilities under a U.K. License will be joint and several.

There are no restrictions imposed under the Petroleum Act regarding the nationality of private sector companies to whom U.K. Licenses are granted (although certain residency criteria do apply). Also, there is no direct state participation in petroleum operations under U.K. Licenses. U.K. Licenses are designed so as to ensure the most effective and efficient exploitation and exploration of petroleum by the relevant licensees. One of the primary mechanisms used in a U.K. License to focus licensees on efficiently discharging their license obligations is by way of requiring licensees to relinquish a certain percent of the relevant license area at the end of the exploration period.

License terms

U.K. Licenses are valid for a sequence of periods, called terms. Each license will expire automatically at the end of the relevant term unless the licensee has satisfied the requisite conditions to allow it to enter into the next subsequent term under the relevant license. Normally those terms fall into the following categories: the exploration term, the appraisal and development term and the production term.

The exploration term

The exploration period normally lasts between four and six years. A U.K. License will expire at the end of the exploration period unless the work program agreed between the U.K. Regulator and the licensee(s) in respect of the exploration period has been completed. At that time, the licensee(s) must also relinquish a prescribed proportion of the relevant license area.

The appraisal and development term

The appraisal and development period normally lasts between four and nine years. The license expires at the end of this period unless a development plan for the relevant license area has been submitted by the licensee and approved by the U.K. Regulator.

The production term

The production period normally lasts 18 years. However, the U.K. Regulator may, acting in its own discretion, extend this term if production is continuing at the date of expiry of the license.

Transfer of a license interest

A licensee may only transfer their interest in a U.K. license with the prior written approval of the U.K. Regulator. If a U.K. License is transferred without such consent the U.K. Regulator may revoke the relevant license or reverse the assignment.

This requirement also applies to assignments between affiliates and related bodies corporate. In order to obtain such consent, the licensee must apply to the U.K. Regulator using the U.K. Regulator's online e-license administration system (known as "**PEARS**"). The U.K. Regulator will then consider the technical and financial capacity of the proposed new licensee, implications of the prospective assignment or decommissioning of relevant facilities and the relevant company's track record and the parent company's provision of any guarantees. However, the U.K. Regulator will not provide its consent where the relevant assignment would result in the license having no approved operator. Any consent granted will be conditional upon the instrument effecting such assignment being substantially in a form approved by the U.K. Regulator.

In order to hold a U.K. License, the licensee must demonstrate its financial capacity to meet its expected commitments, liabilities and obligations and must not be insolvent or a company which appears to be in danger of becoming insolvent. The licensee may be required to furnish the U.K. Regulator with its latest annual report and accounts together with those of its ultimate parent company in order to demonstrate that it can satisfy these requirements. In addition, a licensee must submit a statement of safety and environmental competence and capability, which evidences (inter alia) that a licensee has the appropriate management and control systems in place to deal with environmental or emergency safety issues arising during the course of activities.

The U.K. Regulator may also require trading profit and loss forecasts for the following five years and details, if applicable, of how any deficit may be met by the relevant companies.

Licensees may surrender a U.K. License or part of the acreage covered by it. However, surrendering of all or part of a license is not allowed where the surrender would be a "non-standard" surrender, meaning the surrender of irregular shapes or where it leaves a very small licensed area, or, if the surrender would prevent fulfillment of a license obligation.

Other consents

U.K. Licenses also require various approvals from the U.K. Regulator, U.K. Department of Business, Energy and Industrial Strategy ("**BEIS**") and other government departments for a number of license-related activities. Failure to procure such approvals may result in the relevant activity being delayed or prevented altogether.

Decommissioning in the UKCS

The Petroleum Act (as amended by the subsequent Energy Acts) governs decommissioning responsibilities in the UKCS. In addition, the United Kingdom's international obligations on decommissioning are governed principally by the 1992 Oslo and Paris Convention for the Protection of the Marine Environment of the North East Atlantic ("**OSPAR**") and the earlier United Nations Convention on the Law of the Sea 1982 ("**UNCLOS**"). The OSPAR regime is a regional convention and is additional to the United Kingdom's obligations under international law. Agreement on the regime to be applied to the decommissioning of offshore installations under OSPAR was reached at a meeting of the OSPAR Commission in July 1998 (the "**OSPAR Decision 98/3**"). The Petroleum Act complies with many of the obligations under the OSPAR regime.

The U.K. Regulator works alongside BEIS in assessing decommissioning programs on the basis of cost, future alternative use and collaboration. BEIS remains the competent authority for decommissioning in the UKCS and is the responsible authority for ensuring that the requirements under OSPAR recommendations or actions are applied to decommissioning programs.

Decommissioning obligations under the Petroleum Act

Prior to decommissioning an installation, the Petroleum Act requires that decommissioning programs be approved by BEIS using best-available techniques to achieve best environmental practice.

Under the Petroleum Act, a party will incur liabilities in respect of the decommissioning of installations and pipelines following the service by BEIS of a section 29 notice on that party under the Petroleum Act. At any time following submission of a field development plan, BEIS can issue a section 29 notice requiring that a costed decommissioning program be provided by any of the following parties:

- the license holder;
- a parent company or associated companies of a license holder;
- any licensee who transferred an interest in the license to another party without the consent of the U.K. Regulator;
- the field operator;
- the parties to the field joint operating agreement or similar agreement; and
- any person owning an interest in an installation (but generally only where sufficient financial provision has not otherwise been made with regard to decommissioning).

The parties on whom the notice is served are jointly liable to submit a decommissioning program and once a decommissioning program has been approved by BEIS, it becomes a joint and several obligation upon the persons who submitted it to ensure that it is carried out. Where the Secretary of State deems that such a party is unlikely to be able to carry out any decommissioning obligations placed upon it, it is empowered to require the provision of appropriate financial security to cover those decommissioning costs.

In addition to the parties set out above, under section 34 of the Petroleum Act, BEIS may use a "claw-back" power to impose decommissioning obligations on anyone who, at any time since the issue of the first section 29 notice for the installation, could have been served with such a notice, being former license holders and their affiliates.

The U.K. government's guiding principles on decommissioning

Installations

The underlying presumption on decommissioning is that, in accordance with OSPAR Decision 98/3:

- all offshore installations will be re-used, recycled or disposed of on land;
- all topsides of all installations must be returned to shore;
- all steel installations with a jacket weight of less than 10,000 tons must be completely removed for re-use, recycling or final disposal on land;
- for steel installations with a jacket weight greater than 10,000 tons, it is possible to consider whether the footings of the installation may remain in place but only with a derogation from the OSPAR requirements;
- for concrete installations, it is possible to consider whether they should be left wholly or partially in place but only with a derogation from the OSPAR requirements;
- all installations installed after February 9, 1999 must be completely removed;
- a decommissioning program is required in respect of all offshore installations;
- any exceptions or exemptions are individually assessed in accordance with the provisions of OSPAR Decision 98/3; and
- each decommissioning program is subject to full and open consultation and the section 29 notice will contain a list of organizations to be consulted near the time of decommissioning. Such organizations include fishermen's organizations and other interested bodies.

Pipelines

While OSPAR Decision 98/3 does not apply to pipelines and there are no international guidelines relating to decommissioning of pipelines, the Petroleum Act provides for requirements in this regard. In addition, the United Kingdom's guiding principles on decommissioning provide that:

- decommissioning proposals for pipelines will be considered on an individual basis; and
- all feasible decommissioning options should be assessed including removal, burial or trenching to an adequate depth or just leaving in place.

Residual Liability

The parties who own an installation or pipeline at the time of its decommissioning will normally remain the owners of assets and any residual liability remains with those parties in perpetuity. In addition, parties with a duty to secure that the decommissioning program is carried out will remain liable for any conditions attached to BEIS' approval of the program. Any remains of installations or pipelines will be subject to monitoring at suitable intervals and may require maintenance or remedial action in the longer term. There will also be a need to ensure that fishing and navigation are not disrupted.

The International Maritime Organization ("**IMO**"*) Guidelines and Standards for the Removal of Offshore Installations and Structures on the Continental Shelf and in the Exclusive Economic Zone (the* "**IMO Guidelines**"*)*

The IMO is the competent international organization for the purposes of UNCLOS, governing the United Kingdom's international obligations in respect of decommissioning of offshore installations. The IMO Guidelines prescribe the minimum global standards to be applied to decommissioning offshore installations and structures to ensure the safety of navigation. Although the U.K. government accepted OSPAR Decision 98/3, certain aspects of the IMO Guidelines remain relevant, particularly in terms of identification, survey and navigational aids.

Determination of decommissioning timing

The determination of decommissioning timing is influenced by a number of factors such as increased recovery from existing fields, new exploration and tie-back of new fields, the uncertainty about the future fiscal and regulatory regimes, the long-term trends in oil and gas prices as well as the reduction of decommissioning costs and future technical innovations.

If a licensee is successful in bringing further reserves into production from both existing and new fields, decommissioning could be delayed by 10-15 years in many infrastructure systems. Extending the life of infrastructure allows more reserves to be recovered from both existing fields and any developments arising from new exploration drilling (including fields to which the licensee does not have any direct interest in).

Environmental regulations

Our operations in the UKCS are subject to numerous international, European Union and national laws, regulations, directives and other requirements relating to environmental and health and safety matters ("**HSE**"), including those governing discharges of pollutants to air and water; the management of produced water and wastes; and the clean-up of contaminated sites. These HSE laws and regulations apply at various stages, including before oil and gas production activities commence, during exploration and production activities and during and after decommissioning and are subject to change.

Before a U.K. licensing round begins, the U.K. Regulator typically consults with public bodies that have responsibility for the environment. Applications for production licenses must include a statement of the general environmental policy of the operator in respect of the contemplated license activities, a summary of the operator's management systems to implement the environmental policy and confirmation as to how those systems will be applied to the proposed work program.

Additionally, the Offshore Petroleum Production and Pipelines (Assessment of Environmental Effects) Regulations 1999 (as amended) require the U.K. Regulator to exercise its licensing powers under the Petroleum Act in such a way to ensure that an environmental assessment is undertaken and considered before consent is given to certain projects.

The following is a non-exhaustive list which includes some of the main legislation and statutory instruments applicable to the disposal and discharge of substances into the U.K. environment:

- Offshore Petroleum Activities (Oil Pollution Prevention and Control) Regulations 2005;
- Offshore Petroleum Activities (Oil Pollution Prevention and Control) (Amendment) Regulations 2011;
- Offshore Chemicals Regulations 2002;
- Offshore Chemicals (Amendment) Regulations 2011;
- Merchant Shipping (Oil Pollution Preparedness, Response & Co-operation Convention) Regulations 1998;
- Offshore Installations (Emergency Pollution Control) Regulations 2002;
- Food and Environment Protection Act 1985;
- Deposits in the Sea (Exemptions) Order 1985;
- Offshore Combustion Installations (Pollution Prevention and Control) Regulations 2013;
- Offshore Petroleum Activities (Conservation of Habitats) Regulations 2001;
- Environmental Protection (Controls on Ozone Depleting Substances) Regulations 2011;
- Energy Act 1976;
- Fluorinated Greenhouse Gases Regulations 2015;

- Greenhouse Gases Emissions Trading Scheme Regulations 2012;
- Marine and Coastal Access Act 2009; and
- Conservation of Offshore Marine Habitats and Species Regulations 2017.

Under these statutes and regulations, an offshore operator may require a permit/consent with respect to discharges into the marine environment, subject to a number of exemptions. Both the permits/consents and, if applicable, exemptions, are subject to conditions that must be met for the permit/consent or exemption to continue to operate. Non-compliance with the requirements of the legislation or conditions of a permit/consent may give rise to criminal offences or civil monetary penalties.

In the European Union (and in the U.K. in 2020 pursuant to the EUWA), the Directive on Environmental Liability with Regard to the Prevention and Remedying of Environmental Damage (2004/35/EC), or the Environmental Liability Directive, imposes strict liability on an operator for environmental damage or imminent threat of environmental damage caused by activities listed in Annex III thereof, which include most offshore oil and gas operations. The Environmental Liability Directive's scope was extended by a recently enacted EU Directive 2013/30/EU on the Safety of Offshore Oil and Gas Operations, or Offshore Directive, to include all marine waters in the EU including the UKCS. The Offshore Directive also requires Member States to ensure that licensees are financially liable for remediation of environmental damage (as defined under the Environmental Liability Directive) caused by offshore oil and gas operations carried out by, or on behalf of, the licensee or operator. In September 2015, the European Commission published a report in furtherance of this directive which analyzed (i) parties' liability types of damage and loss in offshore oil and gas accidents; (ii) how to ensure that liable parties have sufficient financial capacity to provide the requisite compensation for the damage and loss they are liable for; and (iii) how compensation should be disbursed so that it reaches legitimate claimants quickly. As a result of the U.K.'s withdrawal from the EU in January 2020, environmental regulation in the U.K. beyond 2021 remains uncertain.

Tax regulations

The following paragraphs are not intended to be exhaustive and are intended as a general guide only. They are based on current U.K. tax law and HMRC published practice (which is subject to change, possibly with retrospective effect) as at June 30, 2022.

Companies engaged in activities relating to the production of oil and gas in the U.K. and in the UKCS are subject to an oil taxation regime which generally consists of the following elements: ring fence corporation tax ("**RFCT**"), a supplementary charge, Petroleum Revenue Tax ("**PRT**") and the Energy Profits Levy ("**EPL**").

Ring fence corporation tax

With some modifications (for example, relating to capital allowances and losses), this is the normal U.K. corporation tax applicable to U.K. companies, but it is subject to a "ring-fence." It is charged at a full rate of 30% (rather than the prevailing full rate of corporation tax of 19% (from April 1, 2017)). This, however, is balanced by 100% first year allowances which are available for almost all capital expenditure. The ring-fence prevents taxable profits from oil and gas extraction in the U.K. and the UKCS being reduced by losses from other activities or by excessive interest payments by treating ring-fenced activities as a separate trade. However, losses from a ring-fenced trade can be relieved against profits from a non-ring fenced trade (as well as against ring-fenced income), as long as, but for the existence of the ring-fence, the non-ring fenced and ring-fenced activities would comprise a single trade.

Interest paid by a company is not deductible against ring-fenced profits unless it is payable in respect of a loan the proceeds of which were used in carrying on oil extraction activities or in acquiring oil rights other than from a connected person.

The following activities generally fall within the ring-fence:

- hydrocarbon extraction, namely:
- searching for hydrocarbons in the UKCS;
- extracting hydrocarbons at any place in the UKCS under a license held by the company;

- transporting hydrocarbons to land; and
- effecting the initial treatment or storage of hydrocarbons; and
- the acquisition, enjoyment or exploitation of rights to hydrocarbons to be extracted at any place in a designated area in the UKCS.

Aggregated capital gains and losses on material disposals (i.e. disposals of interests in oil to be won from a field and/or field assets) are also confined within the ring-fence.

A number of capital allowances may be available to companies engaged in activities relating to oil and gas production in the U.K. and the UKCS. These may include research and development allowances, enhanced mineral extraction allowances and enhanced plant and machinery allowances.

Where companies incur ring fence tax losses, ring fence expenditure supplements ("**RFES**") may apply to increase the tax losses at a rate of 10% per annum for up to 10 accounting periods. The original legislation restricted this relief to six accounting periods and there are detailed rules which operate to reduce the quantum of losses which can be increased by RFES in the additional four accounting periods.

Supplementary charge

Since April 2002 there has been an additional charge on a company's ring fenced profits without deducting costs of debt finance. The supplementary charge is currently 10% for accounting periods commencing on or after January 1, 2016.

Investment allowance

The Investment Allowance ("**IA**") was introduced in respect of qualifying investment expenditure incurred on or after April 1, 2015. The allowance was introduced with the intention of simplifying the existing field allowance regime (since repealed).

The allowance is equal to 62.5% of qualifying investment expenditure incurred by a company in relation to a field. IA is only activated by reference to field production income. Qualifying investment expenditure includes both capital and operating expenditure which meets the definition of qualifying expenditure in the legislation. The IA reduces the adjusted profits subject to the supplementary charge.

High pressure high temperature (*"HPHT"*) cluster area allowance

The HPHT cluster area allowance, which was introduced in respect of qualifying investment expenditure incurred on or after December 3, 2014, is similar to the IA in that it also reduces the adjusted profits subject to the supplementary charge. However the allowance is available to companies involved in exploration, appraisal and development of oil and gas in high pressure high temperature cluster areas and not confined to a single field. The allowance which is also at a rate of 62.5% of qualifying investment expenditure is triggered by reference to production income from the cluster area.

Petroleum revenue tax

PRT is an additional level of taxation on profits derived from oil and gas production in U.K. and the UKCS. It is a "field-based" tax charged on profits of participants arising from individual oil fields and which were given development consent prior to March 16, 1993 (not on aggregate profits arising from the entire business of the relevant participator's company). In addition, oil fields which have been decommissioned and are subsequently redeveloped are now removed from the charge to PRT.

The rate of PRT prior to January 1, 2016 was 50% but effective from January 1, 2016 the rate was reduced to 0%. It is calculated on a statutory basis set out in the Oil Taxation Act 1975 ("**OTA**") by reference to the six-month periods beginning on July 1 and January 1 of each year rather than by reference to company accounts.

Energy profits levy

On May 26, 2022, the U.K. government announced the introduction of an Energy Profits Levy (the "**EPL**") on the profits earned from the production of oil and gas in the U.K., with effect from that date. The EPL enabling legislation, the Energy (Oil and Gas) Profits Levy Act 2022, was substantively enacted on July 11, 2022. The EPL is charged at the rate of 25% on taxable profits in addition to ring fence corporation tax of 30% and the supplementary charge of 10%. The EPL tax is a temporary measure and, as enacted, will cease to apply on December 31, 2025.

Malaysia

The licensing system

With regard to our operations in Malaysia, upstream petroleum activities in Malaysia are primarily regulated by PETRONAS, which derives its powers from the Petroleum Development Act 1974 and the Petroleum Regulations 1974. Pursuant to the terms of the PM8/Seligi PSC, PETRONAS regulates the petroleum operations through its approval of well locations, area and field development plans, production operations, annual work programs and budget, and procurement of goods and services above a certain monetary threshold.

Decommissioning Regulations

In Malaysia, PETRONAS regulates decommissioning of oil and gas structures/facilities through PSCs and PETRONAS's Guidelines for Decommissioning of Upstream Installations as part of its Procedure and Guidelines for Upstream Activities. Our obligation under the PM8/Seligi PSC includes the decommissioning of all assets approved by PETRONAS under the PM8/Seligi PSC as well as an annual contribution of a decommissioning fund for the PM8/Seligi PSC assets.

MANAGEMENT

Board of directors

The persons set forth below are our current members of the board of directors. The address for each of our directors and executive officers is EnQuest PLC, 5th Floor Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom.

It was announced on June 17, 2022 that Martin Houston has notified the Board of Directors of his intention to step down as Non-Executive Chairman at a date to be determined in due course. The board of directors has begun the search process for a new Non-Executive Chair, led by Senior Independent Director Howard Paver.

Name	Age	Position	Type of director	Date appointed to the Board
Martin Houston................	64	Non-Executive Chairman	Non-Executive Director	October 1, 2019
Amjad Bseisu...................	55	Chief Executive Officer	Executive Director	February 22, 2010
Salman Malik...................	41	Chief Financial Officer	Executive Director	August 15, 2022
Howard Paver..................	71	Senior Independent Director	Non-Executive Director	May 1, 2019
Carl Hughes.....................	59	Non-Executive Director	Non-Executive Director	January 1, 2017
Farina Khan.....................	50	Non-Executive Director	Non-Executive Director	November 1, 2020
Liv Monica Stubholt........	60	Non-Executive Director	Non-Executive Director	February 15, 2021
John Winterman...............	67	Non-Executive Director	Non-Executive Director	September 7, 2017
Rani Koya........................	50	Non-Executive Director	Non-Executive Director	January 1, 2022

Mr. Martin Houston joined BG Group plc in 1983 and enjoyed a 32-year career before retiring as chief operating officer and a member of the board of directors. Mr. Houston holds, and has held, many FTSE and international board or senior advisory positions. Mr. Houston's other interests include being a council member of the National Petroleum Council of the United States of America, a member of the advisory board of the Global Energy Policy unit at Columbia University's School of International and Public Affairs, New York and a Fellow of the Geological Society of London. Other principal external appointments include co-founder and vice-chairman of Tellurian Inc., non-executive director of CC Energy and non-executive director of Bupa Arabia. In an advisory capacity, Mr. Houston is the global energy chairman of Moelis & Company and on the advisory board of Radia Inc. Mr. Houston is Chairman of the Governance and Nomination Committee, a member of the Remuneration and Social Responsibility Committee and a member of the Technical and Reserves Committee.

Mr. Amjad Bseisu holds a Bachelor of Science Honors degree in Mechanical Engineering and a Master of Science and D.ENG degree in Aeronautical Engineering. From 1984 to 1998, Mr. Bseisu worked for the Atlantic Richfield Company (ARCO), eventually becoming president of ARCO Petroleum Ventures and ARCO Crude Trading Inc. In 1998 Mr. Bseisu founded and was the chief executive of Petrofac Energy Developments International Limited, the operations and investment business for Petrofac Limited, which organically grew an upstream and midstream oil and gas business in South East Asia, the United Kingdom and North America. Mr. Bseisu was also chairman of Enviromena Ltd., the largest solar power engineering company in the Middle East and Northern Africa region until the entity's sale in 2017. In 2010 Mr. Bseisu formed EnQuest PLC having previously been a founding non-executive chairman of Serica Energy plc and director of Stratic Energy Corporation. Mr. Bseisu was British Business Ambassador for Energy from 2013 to 2015. Other principal external appointments include chairman of the World Economic Forum Independent Oil and Gas Community since 2016 and chairman of The Amjad and Suha Bseisu Foundation. Mr. Bseisu is also a member of the Governance and Nomination Committee.

Mr. Salman Malik graduated from the University of Toronto with a degree in Finance and Economics with high distinction. He is also a CFA charter holder with extensive experience in investment management, investment banking and private equity in Canada and the Middle East. Mr. Malik was appointed chief financial officer ("**CFO**") of EnQuest PLC in August of 2022. Prior to his appointment as CFO, Mr. Malik was responsible for our strategy, corporate finance and mergers and acquisitions as Managing Director of Corporate Development, Infrastructure and New Energy. Prior to joining us in 2013, Mr. Malik was a director of private equity and principal investments at Swicorp, a financial firm operating in the Middle East and North Africa, where he served on the board of several portfolio companies and was responsible for acquisitions, post-acquisition management and exits across the energy value chain. Prior to that, Mr. Malik held several sell-side positions in the investment banking industry in Canada, primarily focused on the industrial and metals and mining sectors.

Mr. Howard Paver holds a Master of Arts in Chemical Engineering as well as a Master of Science in Petroleum Engineering from Imperial College London. He is also a member of the Society of Petroleum Engineers. Mr. Paver began his professional career as a petroleum engineer at Schlumberger before moving to Mobil and then BHP Petroleum, where he was regional president, Europe, Russia, Africa & Middle East, and before becoming president, global exploration & alliance development. Mr. Paver most recently served as SVP, strategy, commercial & business development at Hess, a role he took up in July 2013, having joined the company in 2000 as SVP, north sea/international. Between 2005 and 2013 he held the position of SVP, global new business development. Mr. Paver is Chairman of the Remuneration and Social Responsibility Committee and a member of the following committees: Audit Committee, Governance and Nomination Committee and Technical and Reserves Committee. Mr. Paver's other principal external appointment is non-executive director of OGL Geothermal Ltd.

Mr. Carl Hughes holds a Master of Arts in Philosophy, Politics and Economics, is a Fellow of the Institute of Chartered Accountants in England and Wales, and is a Fellow of the Energy Institute. Mr. Hughes joined Arthur Andersen in 1983, qualified as a chartered accountant and became a partner in 1993. Throughout his professional career he specialized in the oil and gas, mining and utilities sectors, becoming the head of the U.K. energy and resources industry practice of Andersen in 1999 and subsequently of Deloitte in 2002. When Mr. Hughes retired from the partnership of Deloitte in 2015 he was a vice chairman, senior audit partner and leader of the firm's energy and resources business globally. Other principal external appointments include member of the finance and audit committee of Energy Institute; member of the board of the Audit Committee Chairs' Independent Forum (ACCIF); Director and Trustee of the Premier Christian Media Trust; Director and Trustee of the Lambeth Conference Company; member of the development board of St Peter's College, Oxford; member of the General Synod of the Church of England and Deputy Chairman of the finance committee of the Archbishops' Council. Mr. Hughes is Chairman of the Audit Committee and is a member of the Safety, Climate and Risk Committee.

Ms. Farina Khan holds a Bachelor of Commerce from the University of New South Wales, Sydney, Australia and completed the Advanced Management Program at Harvard Business School, USA. She is a Fellow of the Institute of Chartered Accountants Australia and New Zealand. Ms. Khan started her career in 1994 with Coopers & Lybrand, Australia, before returning to Malaysia in 1997 to join PETRONAS where she held various senior positions. Ms. Khan was Chief Financial Officer of PETRONAS Carigali Sdn. Bhd., one of the largest subsidiaries of PETRONAS with operations in over 20 countries and has also been Chief Financial Officer at PETRONAS Exploration and Production. From 2013, Ms. Khan was the Chief Financial Officer of PETRONAS Chemical Group Berhad, the largest listed entity of PETRONAS. Ms. Khan left PETRONAS in 2015 to pursue non-executive opportunities. Ms. Khan currently sits on the Boards of the following Malaysian listed companies: PETRONAS Gas Berhad, KLCC Property Holdings Berhad, AMMB Holdings Berhad and Icon Offshore Berhad. Ms. Khan currently sits also on the boards of Ambank Islamic Berhad and KLCC REIT Management Sdn. Bhd. Ms. Khan is a member of the Audit Committee and a member of the Remuneration and Social Responsibility Committee.

Ms. Liv Monica Stubholt has 20 years' experience as a corporate lawyer and holds a Master of Arts in Law from the University of Oslo, Norway. Ms. Stubholt started her career as an attorney with a Norwegian law firm before becoming political advisor to the Centre Party Finance Parliamentary Group. From 1997, Liv spent two years as a legal advisor to an industry alliance for private ownership before becoming Partner at her original law firm. In 2005, Ms. Stubholt moved back into politics and was Norway's Deputy Minister of Foreign Affairs for two years, followed by two years as Deputy Minister of Petroleum and Energy. Ms. Stubholt re-joined the private sector in 2009 and held four top executive industry positions within the Aker Group in Norway including as EVP in the listed EPC contractor Kværner, before moving back into law. Other principal external appointments include Partner at the Oslo-based law firm Selmer and sitting on a number of private company boards, industrial boards and academic committees including as chairperson of Hafslund Oslo Celsio (formerly Fortum Oslo Varme AS) and Silex Gas Norway AS. Ms. Stubholt is a member of the Safety, Climate and Risk Committee and a member of the Audit Committee.

Mr. John Winterman holds a Bachelor of Science in geology from Queen Mary College, London University and is a member of the American Association of Petroleum Geologists. Mr. Winterman has extensive leadership experience in global exploration, business development and asset management and has a strong record of exploration success globally with over two billion barrels of oil equivalent discovered in the Philippines, Indonesia, Bangladesh, Malaysia, Russia, United States and Yemen. Mr. Winterman joined Occidental in 1981 and after a 20+ year technical career, moved into executive roles; these included high-level leadership positions in exploration, new business development and in asset management. Mr. Winterman left Occidental in 2013 and since then he has provided strategic advice to international oil and gas companies. Other principal external appointments include Non-executive director of CC Energy. Mr. Winterman is Chairman of the Technical and Reserves Committee and a member of the Safety, Climate and Risk Committee.

Ms. Rani Koya has a Bachelor of Science in Engineering Science and a Master of Science in Public Policy and Management from the School of Oriental and African Studies (SOAS). Ms. Koya has more than 20 years' experience working within large multinational, independent and start-up energy companies. These include Shell International, Hess and Tullow and have involved a variety of technical, project management and executive management roles across Europe, Asia, the Americas and Africa. Between 2017 and 2020 Ms. Koya was Chief Petroleum Engineer at Tullow. She has led multi-billion dollar projects across the globe from unconventional shales in the US to oil developments in East Africa. Other principal external appointments include CEO of OGL Geothermal Ltd., Fellow of the Institution of Mechanical Engineers, Trustee for the Oxford Food Hub, Director of South Essex College and the International Women's Forum U.K. Ms. Koya is the Chair of the Safety, Climate and Risk Committee and a member of the Technical and Reserves Committee.

Senior management

The persons set forth below are our current members of senior management.

Name	Age	Position
Richard Hall	61	Managing Director – Global Operations and Developments
Janice Mair	46	Director of People, Culture and Diversity
Martin Mentiply	52	Business Development Director

Mr. Richard Hall joined us at the start of December 2020 and has overall responsibility for our Global Operations and Developments business. Mr. Hall was also one of four founders and Operations Director of the service company UWG Ltd (now known as Acteon Group). He also joined Petrofac as Vice President of Operations & Developments and, in addition, became General Manager in Malaysia where he started Petrofac Malaysia. Mr. Hall went on to be co-founder and CEO of Malaysia-focused Nio Petroleum, which was acquired by EnQuest in 2012. He previously worked for us as part of the Executive Committee as Head of Major Capital Projects and was instrumental in taking Kraken from project concept stage through to production.

Ms. Janice Mair joined us in June 2018 and is responsible for leading our people strategy. Prior to joining us, Ms. Mair was Head of Human Resources for Repsol Sinopec Resources, previously Talisman Energy UK. Ms. Mair has held leadership positions at BAA plc at Aberdeen and Southampton Airports, as well as in management teams in a variety of other sectors. She holds a bachelor's degree in hospitality management, a master's of law degree in employment law and practice, and is a Fellow of the Chartered Institute of Personnel and Development. Her passion is in striving to create working environments where people can thrive and be their best.

Mr. Martin Mentiply holds a degree in Chemical Engineering from the University of Edinburgh and a master's degree in Petroleum Engineering from Imperial College. He has over 20 years of broad international oil and gas operator experience. Through his career he has gained significant technical and commercial expertise in field development planning, project execution, reservoir management and investment assurance across the value chain from Upstream through to LNG. He joined us in 2016 from BG Group plc, where his most recent role was head of assurance, advising the board and chief executive on investment decisions. In previous roles he has worked in Indonesia, Egypt, Tunisia and the U.K. North Sea.

Board committees

Safety, Climate and Risk Committee

The Safety, Climate and Risk Committee undertakes in-depth analysis of specific risks and considers existing and potential new controls, supports the implementation and progression of our Risk Management Framework, reviews our HSEA performance and the effectiveness of our policies and guidelines in managing HSEA risks and reporting, assesses our exposure to managing risks from climate change and reviews actions to mitigate these risks in line with its assessment of other risks and conducts detailed reviews of key non-financial risks not reviewed within the Audit Committee.

The following table sets forth the current members of the Safety, Climate and Risk Committee.

Name	Position	Type
Rani Koya	Chairwoman	Non-Executive Director
Liv Monica Stubholt	Member	Non-Executive Director
Carl Hughes	Member	Non-Executive Director
John Winterman	Member	Non-Executive Director

Audit Committee

The purpose of the Audit Committee is to assist the board of directors in fulfilling its responsibilities of oversight and supervision of, among other things:

- monitoring the integrity of the financial statements, including annual and interim reports and any other formal announcement relating to the Company's financial performance;
- monitoring and reviewing the process of audit of our Proven Reserves and Probable Reserves by a recognized Competent Person;
- monitoring and reviewing the Company's internal control procedures and risk management systems;
- monitoring and reviewing the effectiveness of the external and internal audit activities;
- making recommendations to the Board, to be put to shareholders for approval, on the appointment, review and removal of external auditors;
- establishing the external auditors' remuneration;
- monitoring external auditors' independence;
- monitoring the policy on external auditors' non-audit services; and
- identifying any matters in respect of which it considers that action or improvement is needed and making recommendations to the Board as to the steps to be taken.

The Audit Committee considers annually how our internal audit requirements shall be satisfied and makes recommendations to the board of directors accordingly as well as on any area it deems needs improvement or action. The Audit Committee meets at least three times a year at appropriate times in our reporting and audit cycle and more frequently if required.

The following table sets forth the current members of the Audit Committee.

Name	Position	Type
Carl Hughes	Chairman	Non-Executive Director
Howard Paver	Member	Senior Independent Director
Liv Monica Stubholt	Member	Non-Executive Director
Farina Khan	Member	Non-Executive Director

Governance and Nomination Committee

The Governance and Nomination Committee assists the board of directors in reviewing the functions and make-up of the board, including reviewing the size, structure and composition of the board in order to recommend changes to the board and to ensure the orderly succession of directors, and formalizing succession planning and the process for new director appointments.

The following table sets forth the current members of the Governance and Nomination Committee.

Name	Position	Type
Martin Houston	Chairman	Non-Executive Chairman
Howard Paver	Member	Senior Independent Director
Amjad Bseisu	Member	Chief Executive Officer

Remuneration and Social Responsibility Committee

The main responsibilities of the Remuneration and Social Responsibility Committee are:

- setting the remuneration policy for the chairman, executive directors and senior directors;
- assessing and determining total compensation packages available to the executive and non-executive directors;
- monitoring the remuneration of senior management other than the executive directors whose remuneration it sets;
- making recommendations to the Board for its approval, and that of shareholders, on the design of long-term share incentive plans and making recommendations for the grant of awards to executives under such plans; and
- determining policy and scope for pension rights and any compensation payments and ensuring compliance with the Governance Code in this respect.

The remuneration of the non-executive directors is determined by the Chairman and the other executive directors outside the framework of the Remuneration and Social Responsibility Committee.

In 2021, we extended the remit of the Remuneration Committee to include social responsibility, covering our external support of charitable works and education initiatives. In Malaysia, we continued to sponsor university students to study STEM-related subjects and supported the "IChemE" accreditation of the Chemical and Process Engineering program at The National University of Malaysia. We also sponsored and participated in the program to replant 380 mangrove trees covering an approximate wetland area of 900 m2 within the Kuala Selangor Nature Park. In the U.K., local community support included financial contributions to charitable organizations throughout the year and the provision of internship placements in roles from upstream to communications to young student engineers connected to the Association for Black and Minority Ethnic Engineers. We also extended our partnership with the University of Bradford's Professor of Practice in Sustainability and Energy Futures within the School of Management, Law and Social Sciences.

The following table sets forth the current members of the Remuneration and Social Responsibility Committee.

Name	Position	Type
Howard Paver	Chairman	Senior Independent Director
Martin Houston	Member	Non-Executive Chairman
Farina Khan	Member	Non-Executive Director

Technical and Reserves Committee

The Technical and Reserves Committee was established towards the end of 2019 to provide the Board with additional technical insight when making decisions.

The following table sets forth the current members of the Technical and Reserves Committee.

Name	Position	Type
John Winterman	Chairman	Non-Executive Director
Martin Houston	Member	Non-Executive Chairman
Howard Paver	Member	Senior Independent Director
Rani Koya	Member	Non-Executive Director

Code of conduct

The EnQuest Code of Conduct (the "**Code**") sets out the behavior which we expect of our directors, managers and employees and of our suppliers, contractors, agents and partners. We are committed to complying with all applicable legal requirements, to upholding the highest ethical standards and to acting with complete integrity at all times. We believe that the Code demonstrates our commitment to ensuring that these high levels of conduct continue.

The Code provides policies and guidance as to the following topics:

- Whistle-blowing and a "speak up" reporting hotline;
- Compliance with anti-corruption rules and prohibitions on facilitation payments by us and those associated with us;
- Limitations on business gifts, entertainment expenses, charitable donations and political contributions and activities;
- Restrictions on anti-competitive behavior;
- Record keeping and financial integrity;
- Compliance with anti-money laundering rules;
- Compliance with insider trading and conflict of interest rules;
- Workplace conduct, including anti-harassment rules;
- Health, safety, security and the environment; and
- Privacy protection

The Code of Conduct applies to our Board of Directors, all managers and employees of EnQuest and our affiliated companies and controlled joint ventures, and to other individuals and companies when they are working for us—including contractors and consultants who will contractually be obliged to act consistently with the Code.

Governance issues

The directors support high standards of corporate governance. As a U.K. listed company, we are required to state whether we have complied with the relevant provisions of the revised U.K. Corporate Governance Code (the "**U.K. Governance Code**") published in July 2018.

The chief executive pay ratio for 2021 was 13:1. In line with the U.K. Governance Code, we are tracking changes in the CEO pay ratio on an annual basis. The Remuneration Committee considers the ratio to be reasonable considering our relative position against our benchmark peers and reflecting adjusted business performance during 2021.

Save as otherwise disclosed, the directors consider that we complied with the relevant provisions set out in Section 1 of the U.K. Corporate Governance Code during the financial years ended December 31, 2019, 2020 and 2021. The directors expect that we will comply with the relevant provisions of the U.K. Corporate Governance Code in respect of our current financial year.

No group of individuals dominates the Board's decision-making process and none of the directors has any conflict of interest between their duties to the Company and their private interests. The division of responsibilities between the Chairman and the Chief Executive has been clearly established, set out in writing and agreed by the Board.

The Board has a formal schedule of matters specifically reserved to it for decision, which was approved by the Board in 2019. Its reserved matters include determination of our overall strategy, to review business plans, trading performance and overhead costs, to approve major capital investment projects, examine acquisition opportunities and divestment possibilities, review significant financial and operational issues, and review and approve our financial statements and control and risk management systems.

The Board delegates the execution of its strategic objectives and day to day management to executive management.

The Board has full and timely access to all relevant information to enable it to perform its duties. The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. In addition, each director has access to the advice and services of the Company Secretary. There is also a procedure agreed by the Board, in furtherance of the duties, to take independent professional advice if necessary, at the Company's expense, up to a pre-determined limit.

Compensation paid to our board of directors and committee members

We paid aggregate remuneration, including salaries, bonuses and other amounts, to key management personnel, including executive and non-executive directors and other senior personnel, of $9.0 million, $7.9 million and $7.9 million in 2019, 2020 and 2021, respectively.

Share-based payment plans

We have two primary share schemes for the benefit of our directors and employees a Performance Share Plan and a Sharesave Plan.

Performance share plan

Under the Performance Share Plan, shares vest subject to performance conditions. Share awards granted in 2020 had one performance condition associated with them: 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. Share awards granted in 2021 had two performance conditions associated with them: 80% of the award relates to TSR against a number of comparator group oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; and 20% of the award relates to achieving a reduction in emissions of at least 10% over three years from the baseline set in January 2021.

The fair value of the awards granted under the plan at various grant dates during the year are based on quoted market prices adjusted for an assumed vesting rate over the relevant vesting period.

We recognized charges of $4.0 million, $3.3 million and $5.2 million in our statement of comprehensive income in relation to our Performance Share Plan for the years ended December 31, 2019, 2020 and 2021, respectively.

Sharesave Plan

We also operate 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 credit/(charge) recognized in our statement of comprehensive income in relation to our savings-related share option scheme for the years ended December 31, 2019, 2020 and 2021 were a charge of $0.9 million, a credit of $0.2 million and a charge of $1.0 million, respectively.

PRINCIPAL SHAREHOLDERS

We have an issued share capital of £94,296,217 comprised of 1,885,924,339 ordinary shares with a par value of 5 pence, each being fully paid up. The following table sets forth certain information concerning the significant shareholders with a notifiable interest of our ordinary shares as of August 31, 2022.

Name of shareholder	Number of shares	Total percentage of shares owned
Bseisu consolidated interests[1]	230,340,715	12.2
Aberforth Partners LLP	153,414,238	8.1
Baillie Gifford & Co Ltd	109,029,287	5.8
Schroder Investment Management Ltd	102,194,657	5.4
Hargreaves Lansdown Asset Management	80,072,619	4.3
Cobas Asset Management	74,116,826	3.9
Dimensional Fund Advisors	72,083,320	3.8
Avanza Fonder AB	64,954,667	3.4
Blackrock Inc.	57,759,383	3.1

(1) 197,659,025 shares are held by Double A Limited, a company beneficially owned by the extended family of Amjad Bseisu. 32,504,731 shares are also held by The Amjad & Suha Bseisu Foundation and 176,959 shares are held directly by Amjad Bseisu.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the course of our ordinary business activities, we may from time to time enter into agreements with or render services to related parties. In turn, such related parties may render services or deliver goods to us as part of their business. Purchase and supply agreements between subsidiaries and affiliated companies and with associated companies or shareholders of such associated companies are entered into from time to time within the ordinary course of business.

We do not believe we conduct any transactions with affiliated companies that are not subsidiaries.

DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

RBL Facility

Overview

The Company and certain of our subsidiaries entered into a senior secured revolving borrowing base facility agreement on June 10, 2021 as amended on November 29, 2021 and subsequently amended and restated on or about the Issue Date with effect on the Issue Date (the "**RBL**").

The committed facility amount is $500.0 million, reducing in accordance with an amortization schedule and the sublimit for drawings in the form of letters of credit is $75.0 million. The RBL will mature on April 27, 2027. The RBL may be utilized in US dollars or pounds sterling by drawing of cash advances or by issuances of letters of credit for, among other things, our general corporate purposes.

BNP Paribas is the facility agent, security agent and fronting bank for letters of credit. The lenders under the RBL Facility are BNP Paribas, DNB (UK) Limited, Deutsche Bank AG, Amsterdam Branch, Bank of America Europe Designated Activity Company, Sculptor Investments IV S.á r.l., Goldman Sachs International Bank, Double A Limited and BP Oil International Limited (together, the "**RBL Lenders**"), which may include certain other lenders.

Borrowers and guarantors

Each of the following companies is both a borrower under the RBL (a "**RBL Borrower**") and guarantor under the RBL (a "**RBL Guarantor**"): the Company, EnQuest Heather Limited, EnQuest Heather Leasing Limited, EnQuest ENS Limited, EnQuest Britain Limited, EQ Petroleum Sabah Ltd, EnQuest Production Limited, EnQuest NWO Limited, EnQuest Global Limited, EnQuest Advance Limited, EnQuest Petroleum Production Malaysia Ltd and North Sea (Golden Eagle) Resources Ltd.

Each of the following companies is a RBL Guarantor but not a RBL Borrower: NSIP (GKA) Limited, EnQuest Marketing and Trading Limited, EnQuest Petroleum Developments Malaysia Sdn. Bhd. and EnQuest Advance Holdings Limited.

A mechanism is included in the RBL to enable certain of the Company's subsidiaries to accede as additional borrowers or additional guarantors with respect to the RBL, subject to certain conditions.

Security

The RBL is secured by way of:

- an English law composite debenture incorporating: (i) a share charge over the shares of EnQuest Marketing and Trading Limited, EnQuest Britain Limited, EnQuest Global Limited, EnQuest ENS Limited, EnQuest Heather Limited, EnQuest Production Limited, EnQuest Heather Leasing Limited, EnQuest Petroleum Production Malaysia Ltd, EnQuest NWO Limited, EQ Petroleum Sabah Ltd, EnQuest Advance Limited and EnQuest Advance Holdings Limited; (ii) a floating charge over the assets of such companies (including over the interest in relevant licenses for each Borrowing Base Asset), with a carve out for EnQuest Petroleum Production Malaysia Ltd where it is not permitted to charge its interest under any production sharing contracts is has entered into; and (iii) security over hedging agreements, intra-group loans, proceeds accounts and the Call Option Deed;

- a separate (i) English law debenture creating fixed and floating charges over all of North Sea (Golden Eagle) Resources Ltd.'s assets, including any proceeds accounts, inter-company loans and hedging agreements and (ii) a share charge over the shares in North Sea (Golden Eagle) Resources Ltd.;

- a French law security agreement granting security over the cash collateral accounts;

- Scots law security documents as follows (i) a share pledge between EnQuest PLC and the Security Agent in relation to the shares of NSIP (GKA) Limited, (ii) a floating charge between NSIP (GKA) Limited and the Security Agent, (iii) a floating charge between EnQuest Heather Limited and the Security Agent and (iv) a floating charge between EnQuest Advance Limited and the Security Agent;

- a separate Scots law floating charge over the assets of North Sea (Golden Eagle) Resources Ltd.; and
- separate Malaysian law security agreements incorporating: (i) a share charge over the shares in EnQuest Petroleum Developments Malaysia Sdn. Bhd. and (ii) a floating charge over the assets of EnQuest Petroleum Developments Malaysia Sdn. Bhd. and EnQuest Petroleum Production Malaysia Ltd.

Second-ranking security has been granted to secure the RBL Borrowers' counter-indemnity obligations to their decommissioning surety bond providers, ranking junior to the RBL security. The RBL agent has entered into an intercreditor agreement with, among others, the surety bond providers and the Company to regulate these security arrangements.

Guarantees

Each of the RBL Guarantors has (among other things) provided a guarantee of all amounts payable to the Finance Parties (as defined in the RBL) by any RBL Borrower in connection with the RBL. Each of the RBL Guarantors provided confirmation in the amendment and restatement agreement that these guarantees are outstanding and remain in full force and effect.

Commitments and additional commitments

The committed facility amount is $500.0 million, reducing in accordance with an amortization schedule. There is a standard accordion option, such that the Company can increase commitments by an amount of up to $300.0 million on no more than three occasions.

There is a sublimit for drawings under the RBL in the form of letters of credit of $75.0 million.

Funds can only be drawn under the RBL to a maximum amount of the lesser of (i) the total commitments and (ii) the Borrowing Base Amount.

"**Borrowing Base Amount**" means the amount calculated at each redetermination date falling in June and December in each year as the lower of:

(i) the net present value (the "**NPV**") of cash flow available for debt service ("**CFADS**") from the Borrowing Base Assets over the field life, divided by a field life cover ratio ("**FLCR**") of 1.50x; and
(ii) NPV of CFADS from Borrowing Base Assets over the remaining loan life, divided by a loan life cover ratio (where the loan life cover ratio is based on the original final maturity date of the RBL Facility prior to being amended on or about the Issue Date, i.e. June 10, 2028) ("**LLCR**") of 1.30x),

plus:

(i) a capex add back amount (being the forecast capital expenditure on the Borrowing Base Assets for the next 12 months, which is added back to the NPV of CFADS prior to applying both ratios); and
(ii) the add-back to the CFADS of the amount of cash held in the letter of credit cash collateral account with regard to letters of credit equal to the projected abandonment expenditure for any Borrowing Base Asset only in the year(s) the abandonment expenditure ("**Abex**") guaranteed by such cash collateral is deemed to occur (capped at the relevant Abex amount, and if less than the full amount, pro-rated over the years that such Abex is deemed to be spent),

minus:

(i) an amount which, if not deducted from the aggregate of (i) and (ii) above, would result in the proportion of the field life NPV attributable to the development assets exceeding 40%; or the proportion of the field life NPV attributable to a single Borrowing Base Asset exceeding 70%.

Conditions to drawdown

The RBL Lenders are only obliged to advance loans and the fronting bank is only obliged to issue letters of credit if (i) no Event of Default (as defined in the RBL) in the case of a rollover loan or letter of credit, or default in the case of any other utilization is continuing or would result from the utilization; (ii) the repeating representations are true in all material respects on the date of the utilization request and proposed utilization date; (iii) the projection which is due to be adopted by the most recent redetermination date has been so adopted (other than in the certain exceptions); and (iv) the aggregate amount of the proposed utilization will not exceed the applicable limits.

Reduction and repayment

Based on an assumed committed facility amount of $500.0 million, the committed facility amount reduces in accordance with the following amortization schedule:

On and from the Issue Date to and including June 30, 2023	$500.0 million
From and including July 1, 2023 to and including December 31, 2023……	$500.0 million
From and including January 1, 2024 to and including June 30, 2024...........	$433.3 million
From and including July 1, 2024 to and including December 31, 2024	$383.3 million
From and including January 1, 2025 to and including June 30, 2025...........	$333.3 million
From and including July 1, 2025 to and including December 31, 2025	$283.3 million
From and including January 1, 2026 to and including June 30, 3026...........	$233.3 million
From and including July 1, 2026 to and including December 31, 2026	$183.3 million
From and including January 1, 2027 to and including April 27, 2027	$133.3 million
On and from the final maturity date..	—

The RBL Borrowers must maintain cash cover in respect of outstanding letters of credit (other than the contingent payment letter of credit in favor of Suncor Energy UK Limited):

- starting at 20% 24 months before the final maturity date to but excluding the date falling 18 months before the final maturity date;
- 40% 18 months before the final maturity date to but excluding the date falling 12 months before the final maturity date;
- 60% 12 months before the final maturity date to but excluding the date falling 6 months before the final maturity date;
- 80% 6 months before the final maturity date to but excluding the final maturity date; and
- 100% on the final maturity date.

Mandatory Prepayment

Illegality

If it becomes unlawful in any applicable jurisdiction for a lender or for an affiliate of a lender for that lender to perform its obligations under the RBL or to fund or maintain its participation in a loan, the available commitment of that lender will be cancelled and, if applicable, all obligations under such commitment will be payable on the last day(s) of the relevant interest period(s) or earlier if required by the lender.

Change of Control

If we experience certain change of control events, any lender may by notice to us and the agent cancel its commitments immediately and each borrower must within 15 business days of receiving such notice repay any such lender's participation in all outstanding loans, together with accrued interest and all other amounts due to that lender under the finance documents.

Other

The RBL includes customary prepayment events and rights related to defaulting lenders, taxes and increased costs.

Voluntary prepayment and cancellation

Subject to payment of break costs (if any) (and of an administration fee due to the facility agent in the case of more than four prepayments in a calendar year), an RBL Borrower may voluntarily cancel the available commitments or prepay amounts outstanding under the RBL without penalty or premium, at any time in whole or in part, subject to a minimum cancellation or repayment of $1.0 million, on not less than five business days' (or such shorter period as the RBL Majority Lenders may agree) prior notice to the facility agent.

Interest and fees

The rate of interest payable on the loans under the RBL is the benchmark rate plus the agreed margin and the credit adjustment spread, if applicable.

Margin is calculated as follows:

- on and from the Issue Date to and including June 10, 2025, 4.00% per annum; and
- on and from June 11, 2025 up to and including the final maturity date, 4.50% per annum.

EnQuest Heather Limited is required to pay a commitment fee to the RBL Lenders as follows:

- 20% per annum of the applicable margin on the daily amount (if any) by which the total commitments less the amount of any outstanding Eligible L/Cs and the Contingent Payment L/C (as such terms are defined in the RBL), exceed the applicable Borrowing Base Amount; and
- 40% per annum of the applicable margin on the daily amount (if any) by which the lower of (x) the total commitments less the amount of any outstanding Eligible L/Cs and the Contingent Payment L/C (as such terms are defined in the RBL); and (y) the Borrowing Base Amount, exceeds the base currency amount of all outstanding utilizations, where for this purpose all outstanding Eligible L/Cs and the Contingent Payment L/C shall be disregarded.

Representations and warranties

The RBL includes representations and warranties customary for reserve based lending facilities, subject to customary exceptions and appropriate materiality qualifications.

Negative covenants

The RBL includes restrictive covenants customary for reserve based lending facilities, subject to certain agreed exceptions, including, but not limited to, covenants restricting the ability of each RBL Borrower and RBL Guarantor (and other subsidiaries, as applicable), among other things to:

- create security;
- dispose of petroleum assets;
- merge or consolidate with other companies or make acquisitions;

- make a substantial change to the general nature of its business;
- incur indebtedness or provide guarantees;
- allow its rights under certain project documents to be terminated, suspended or limited;
- make loans or extend credit to third parties;
- make distributions unless it is a distribution to an existing RBL Obligor or included in the latest EnQuest Group Liquidity Test; and
- violate sanctions and anti-corruption law.

Affirmative covenants

The RBL requires each RBL Borrower and RBL Guarantor to (and to procure other subsidiaries, as applicable to) observe affirmative covenants customary for reserve based lending facilities, subject to customary exceptions.

Financial covenant

The RBL contains the following financial covenant: the ratio of consolidated net financial indebtedness to Adjusted EBITDA is not greater than 3.5x, which is tested on each redetermination date.

On each redetermination date, it must be demonstrated that we have sufficient funds available to meet all our liabilities in each six-month period over the next 24 months (the "**EnQuest Group Liquidity Test**").

EnQuest Heather Limited undertakes to maintain a minimum working capital cash balance of $25.0 million standing to the credit of our proceeds accounts.

These financial terms are defined in the RBL and may not correspond to similarly titled metrics in our group financial statements or this document.

Events of Default

The RBL sets out certain events of default, the occurrence of which would allow the lenders (if the RBL Majority Lenders so direct) to cancel their commitments or declare that all or part of the loans, together with accrued interest and other amounts outstanding are immediately due and payable and/or payable immediately on demand and/or declare that full cash cover in respect of each letter of credit is immediately due and payable. The events of default are customary for reserve based lending facilities and are subject to customary grace periods, thresholds and other qualifications.

Hedging

The RBL Borrowers are required to enter into the following hedging arrangements:

RBL Borrowers will hedge by way of straight puts, collars and/or swaps: (i) a minimum of 45% of volumes of net entitlement production expected to be produced in the 12 months following the relevant quarter date and (ii) from the date 12 months after the relevant quarter date to the date 24 months after that date:

- if 75% or more of the facility is utilized on the relevant quarter date, 35% of volumes of net entitlement production expected to be produced;
- if less than 75% but 50% or more of the facility is utilized on the relevant quarter date, 25% of volumes of net entitlement production expected to be produced; and
- if less than 50% of the facility is utilized on the relevant quarter date, 15% of volumes of net entitlement production expected to be produced.

In all cases, minimum floor protection will be equal to or above the lower of 90% of the economic assumption as to hydrocarbon prices included in the then-current projection and 90% of the forward price curve at the time of hedge execution.

Governing law

The RBL is governed by English law.

SVT Working Capital Facility

Overview

EnQuest Heather Limited is the borrower under a revolving loan facility entered into with BNP Paribas in, among others, its capacity as lender for an aggregate amount of £42.0 million dated December 1, 2017, as novated and amended on December 1, 2018 and further amended on November 25, 2020 and January 3, 2022 (the "**SVT Working Capital Facility**") in connection with its assumption of the role of operator of SVT. BP International Limited (the "**BP SVT Guarantor**") separately provided a guarantee capped at £42 million dated December 1, 2017, as amended and restated on December 1, 2018 in relation to the SVT Working Capital Facility, such guarantee given directly to BNP Paribas. The operating agreement for SVT (under which EnQuest Heather Limited is operator) currently operates on an invoicing basis (whereby the operator must pay out amounts and then subsequently invoice the joint venture parties for their percentage interest share of costs) as opposed to a cash calling basis (whereby an operator can call amounts in advance from the joint venture parties).

The proceeds of the SVT Working Capital Facility are used for project expenditure in respect of SVT and the loan is repayable on the last day of each interest period. The representations, mandatory prepayment provisions, undertakings and events of default are customary for a facility of this nature. Interest is calculated at the rate per annum equal to the aggregate of the margin of 1% per annum, the benchmark rate and mandatory costs (if any).

The remuneration due to the BP SVT Guarantor for providing the BP guarantee is equal to 90% of the difference between the sum of all SVT/NLGP/NPS operator fees received by SPV less the interest paid and any other fees paid by SPV to the bank on the overdraft balance (to the extent not recovered from relevant joint venture partners/users). This remuneration is payable by SPV to the BP SVT Guarantor on a monthly basis. To the extent that the fees paid to the operator under the operating agreement for SVT are insufficient to cover the fees payable to the bank, the shortfall shall be met by the BP SVT Guarantor and recoverable through a separate waterfall mechanism.

The BP SVT Guarantor agreed to continue to provide its guarantee of such a working capital facility for EnQuest Heather Limited until the earlier to occur of:

a) the date on which production from Magnus permanently ceases; and

b) if the operating agreements for both SVT and the NPS are amended to allow for cash calling, the effective date of such amendment.

Guarantee Subordination Agreement

In the following summary of the subordination agreement dated April 9, 2014 between, among others, the Company and BNP Paribas (as senior facility agent and security trustee) as amended, novated, supplemented, extended and/or restated from time to time (the "**Guarantee Subordination Agreement**"):

- "**Debt Documents**" refers to (among others) each of the Senior Finance Documents and the Notes Documents;
- each member of our Group (excluding any Notes Issuer) that is a borrower or guarantor under the Debt Documents is referred to as a "**Debtor**" and are collectively referred to as the "**Debtors**";
- "**Group**" refers to all of the Company's subsidiaries for the time being but, for the avoidance of doubt, not the Company itself;
- "**Liabilities**" refers to (among others) all present and future liabilities and obligations at any time of a Debtor to a creditor under the Debt Documents, both actual and contingent and whether incurred solely or jointly or as principal or surety or in any capacity, together with any of the following matters relating to or arising in respect of those liabilities and obligations:
    - any refinancing, novation, deferral or extension;

- any claim for breach of representation, warranty or undertaking or an event of default or under any indemnity given under or in connection with any document or agreement evidencing or constituting any other liability or obligation falling within the definition of "**Liabilities**";

- any claim for damages or restitution; and

- any claim as a result of any recovery of any Debtor of a payment to a creditor on the grounds or preference or otherwise,

and any amounts which would be included in any of the above but for any discharge, non-provability, unenforceability or non-allowance of those amounts in any insolvency or other proceedings;

- "**Notes**" means the 7% Retail Notes, 9% Retail Notes and the Notes offered hereby;

- "**Notes Creditors**" refers to, as applicable, (i) the 7% Retail Notes Trustee on its own behalf and on behalf of the holders of the 7% Retail Notes; (ii) the Trustee on its own behalf and on behalf of the holders of the Notes offered hereby; and (iii) the 9% Retail Notes Trustee on its own behalf and on behalf of the holders of the 9% Retail Notes;

- "**Notes Documents**" refers to, as applicable, each of (i) the Guarantee Subordination Agreement, (ii) the 7% Retail Notes, the 7% Retail Notes Guarantees and the 7% Retail Notes Trust Deed, (iii) the 9% Retail Notes, the 9% Retail Note Guarantees and the 9% Retail Notes Trust Deed; and (iv) the Notes, the Note Guarantees and the Indenture;

- "**Notes Issuer**" refers to the Company (in its capacity as issuer of the Notes, the 7% Retail Notes and the 9% Retail Notes) and any of its wholly owned subsidiaries which may in the future issue bonds or notes and on-lend the proceeds of such issuance to the Company;

- "**Notes Trustees**" refers to, as applicable, the 7% Retail Notes Trustee, 9% Retail Notes Trustee, the Trustee or any other representative of any debt ranking *pari passu* with the Notes; and

- "**Senior Finance Documents**" refers to (among others) the Guarantee Subordination Agreement and the RBL Facility Agreement (pursuant to a notice of designation dated July 15, 2021) and certain hedging agreements and other documents evidencing the Senior Liabilities (as defined below).

Ranking and Priority

The Guarantee Subordination Agreement provides that the Liabilities owed by the Debtors to the Senior Creditors under the Senior Finance Documents (the "**Senior Liabilities**") and the Liabilities owed by the Guarantors to the Notes Creditors under the Notes Documents (the "**Note Guarantee Liabilities**") will rank in right and priority of payment in the following order:

- first, the Senior Liabilities *pari passu* and without any preference between them; and

- second, the Note Guarantee Liabilities, *pari passu* and without preference between them.

The parties to the Guarantee Subordination Agreement have agreed that the Liabilities owed by any Notes Issuer to the Notes Creditors under the Notes Documents, certain amounts owed to the Notes Trustees under the Notes Documents and certain security enforcement and preservation costs relating to the Notes (if any) are senior obligations (and are therefore not Note Guarantee Liabilities) and the Guarantee Subordination Agreement does not purport to rank, postpone and/or subordinate any of them in relation to any other liability.

Permitted Payments

Until the Senior Discharge Date (as defined below), the Guarantee Subordination Agreement only permits Debtors to pay any amounts due to the Notes Creditors with respect to the Note Guarantee Liabilities if:

- no Stop Notice (as defined below) is outstanding and no Senior Payment Default (as defined below) has occurred and is continuing; and

- the requisite consent of the RBL Lenders has been obtained; or

- the payment is of:

  - costs, commissions, taxes, fees payable to administrative service providers in connection with any consent process (provided that no portion of such fees may be payable to, or received by, the holders of the Notes) and expenses incurred in respect of (or reasonably incidental to) the Note Documents (or any of them);

  - additional amounts payable as a result of the tax gross-up provisions relating to the Note Guarantee Liabilities and amounts in respect of currency indemnities in the Notes Documents;

  - any amount not exceeding $2,250,000 (or its equivalent in other currencies) in aggregate in any twelve-month period; or

  - the principal amount of the liabilities in respect of the Notes, the 7% Retail Notes or the 9% Retail Notes on or after the final maturity date thereof; *provided* that such maturity date is the date so stated in the 7% Retail Notes Trust Deed, 9% Retail Notes Trust Deed or the Indenture, respectively, in its original form.

The "**Senior Discharge Date**" means the date on which all Senior Liabilities have been fully and finally discharged to the satisfaction of the relevant Representative (as defined below) and the Senior Creditors are under no further obligations to provide financial accommodation to any Debtor under any Senior Finance Document.

A "**Senior Payment Default**" refers to a payment default under the Senior Finance Documents other than in respect of an amount not exceeding $1.0 million (or its equivalent in any currency).

The agent representative (the "**Representative**") of the creditors under the RBL may serve a notice (a "**Stop Notice**") to a Notes Trustee specifying that an event of default (other than a Senior Payment Default) under the RBL is outstanding and suspend the payment of any Note Guarantee Liabilities (subject to the exception described above) until the earliest of:

- the date on which such relevant event of default is waived, remedied or cured in accordance with the relevant document, is no longer continuing or otherwise ceases to exist;

- the date falling 179 days after the date of receipt by a Notes Trustee of the Stop Notice;

- the date on which the Senior Liabilities owed to the relevant Senior Creditors under the Senior Finance Documents under which such event of default occurred have been fully and finally discharged and the relevant Senior Creditors are under no further obligation to provide financial accommodation to any Debtor under any Senior Finance Document;

- the date on which the Representative that served the Stop Notice cancels such Stop Notice;

- if a Standstill Period (as defined below) is already in effect, the date on which the aforementioned Standstill Period expires; and

- the date on which that Notes Trustee takes any enforcement action that is permitted under the Guarantee Subordination Agreement.

Each Stop Notice is to be issued within 60 days of receipt of notice of such default, only one notice may be served within any 360 day period, not more than one such notice may be served in respect of the same event or set of circumstances and no such notice may be served in respect of an event of default which has been notified to the relevant Representative at the time at which an earlier Stop Notice was issued.

Notwithstanding the foregoing, the Notes Issuer is not prevented from making a payment from its own assets if such payment is in respect of any of its obligations under the Notes in respect of which such Stop Notice has been delivered and such payment is not financed by a payment to such Notes Issuer by a member of our Group which is prohibited as described in the paragraph entitled "**Permitted payments**."

Turnover – by the Notes Creditors

The Guarantee Subordination Agreement provides that if, at any time prior to the Senior Discharge Date, a Notes Creditor (subject to certain limited exceptions, including in respect of a Notes Trustee) receives or recovers a payment or distribution of, on account of or in relation to any Note Guarantee Liabilities which is not a permitted payment under the Guarantee Subordination Agreement, it will, in relation to receipts and recoveries from a Notes Guarantor:

- hold the received or recovered amount on trust for the Representative;
- promptly notify the Representative of such receipt or recovery and request that the Representative confirm the amount of Senior Liabilities outstanding under the relevant Senior Finance Document; and
- pay or distribute such amounts to the Representatives for application in accordance with the terms of the Senior Finance Documents.

Turnover – by the Representatives

The Guarantee Subordination Agreement provides that, if the Representative collects, receives or recovers any amounts in following the taking of any enforcement action by a Notes Trustee and, after the Senior Discharge Date, the Representative continues to hold any such amounts so collected, received or recovered, the Representative shall promptly pay all such amounts to the relevant trustee for application in accordance with the terms of the Notes Documents (or *pro rata* to the relevant representatives of any debt ranking *pari passu* with the Notes).

General

The Guarantee Subordination Agreement contains provisions dealing with:

- the incurrence of future debt that will allow (i) certain agents with respect to the creditors of senior debt to accede to the Guarantee Subordination Agreement and benefit from, and be subject to, the provisions described above (including, for the avoidance of doubt, as creditors in respect of Senior Liabilities); and (ii) certain trustees with respect to the creditors of debt ranking *pari passu* with the Notes to accede to the Guarantee Subordination Agreement and have the same rights and obligations as the Notes Trustees;
- when any Notes Trustee may (i) demand, sue, prove and give receipt for any Guarantors' Note Guarantee Liabilities; (ii) collect and receive all distributions on, or on account of, any Guarantors' Note Guarantee Liabilities; and (iii) file claims, take proceedings and do other things to recover any Guarantors' Note Guarantee Liabilities;
- the circumstances in which any Notes Trustee may by giving at least 10 business days' notice to the Representative, at any time when a Stop Notice is outstanding and any enforcement action has been taken by or on behalf of a Senior Creditor, require the transfer to it or all (and not part) of the rights and obligations in respect of the Senior Liabilities (subject to certain conditions);
- when a Notes Trustee will be required, pursuant to any enforcement action taken in relation to the Senior Finance Documents, to release any guarantees given by the Guarantors;
- notwithstanding any other provision of the Guarantee Subordination Agreement, no Notes Trustee shall have any obligation to take any action under the Guarantee Subordination Agreement unless it is indemnified and/or secured to its satisfaction in respect of all costs, expenses and liabilities which it would in its opinion thereby incur (together with any associated VAT); and
- customary protections, entitlements and exemptions from liability for Notes Trustees all as further set out in the Guarantee Subordination Agreement.

Governing Law

The Guarantee Subordination Agreement is governed by and construed in accordance with English law.

Letters of credit and surety bonds

We enter into letters of credit and surety bonds principally to provide security for our decommissioning obligations.

We have a letter of credit of £2.2 million in respect of our lease at Annan House in Aberdeen, expiring June 24, 2023.

We have a letter of credit of $50.0 million in respect of contingent consideration on the Golden Eagle acquisition, expiring July 28, 2023.

We have surety bonds of:

- £69.6 million (expiring December 31, 2022) in respect of our decommissioning obligations in the Heather Field and benefitting BG Great Britain Limited;
- $5.0 million (expiring December 31, 2022) benefitting Unocal International Corporation which also relates to Heather;
- £18.7 million (expiring December 31, 2022) in respect of its decommissioning obligations in the Alba Field and benefitting Ithaca Oil and Gas Limited;
- £42.0 million (expiring December 31, 2022) in respect of its decommissioning obligations at The Dons and benefitting certain Ithaca entities;
- £15.4 million (expiring March 31, 2023) in respect of its decommissioning obligations in the GKA Fields and benefitting Dana Petroleum (E&P) Limited;
- £16.1 million (expiring December 31, 2022) in respect of its decommissioning obligations in the Broom Field and benefitting MOLGROWEST (I) Limited; and
- £14.6 million (expiring December 31, 2022) in respect of its decommissioning obligations in Alma & Galia Fields and benefitting KUFPEC UK Limited. We do not currently have letters of credit or surety bonds in respect of our other assets.

We do not currently have cash in trust accounts in respect of our assets.

Deeds of indemnity

Each of Liberty Mutual Insurance Europe SE and HCC International Insurance Company Plc (the "**Surety Bond Providers**") have issued surety bonds in respect of our decommissioning liabilities and, although they currently have no commitment to do so, may agree to issue further such surety bonds from time to time.

Pursuant to a deed of indemnity between, amongst others, the Company and Liberty Mutual Insurance Europe SE dated June 10, 2021 (as amended and restated on July 9, 2021 and as further amended on the Issue Date) and a deed of indemnity between, amongst others, the Company and HCC International Insurance Company Plc dated June 10, 2021 (as amended and restated on July 9, 2021 and as further amended on the Issue Date), the Company has granted security to each of the Surety Bond Providers to secure certain of its counter-indemnity obligations to the respective Surety Bond Providers. Such security is equivalent to the security package granted to the RBL Lenders but ranking junior to the RBL Lenders' security package.

Intercreditor agreement

We have entered into an intercreditor agreement with, amongst others, the RBL Lenders, and the Surety Bond Providers dated June 10, 2021 (as amended pursuant to an amendment deed on July 21, 2021 and as further amended on or prior to the Issue Date) to govern the relationship between the parties and under which it is agreed that the security package granted in favor of the RBL Lenders ranks in priority to the lower ranking security granted in favor of the Surety Bond Providers.

Hedging arrangements

We maintain certain commodity hedges to manage our exposure to movements in oil and gas prices. In addition, we hold a small portfolio of foreign exchange derivatives. In connection with these activities, we have entered into International Swaps and Derivatives Association master agreements with several hedging partners.

7% Retail Notes

The following description of the 7% Retail Notes is based on their terms and conditions in effect as at the date of this Offering Memorandum.

Overview

On February 15, 2013, the Company issued (i) an initial tranche of £145.0 million 5.50% notes due February 15, 2022 (the "**Initial Tranche of Retail Notes"**) under its £500.0 medium term note program; and (ii) a further tranche of £10.0 million 5.5% notes due February 15, 2022 (the "**Further Tranche of Retail Notes**") on December 2, 2013 which were consolidated with and formed a single series with the Initial Tranche of Retail Notes (together, the "**Original Retail Notes**"). Pursuant to a scheme of arrangement under part 26 of the Companies Act 1986, which was sanctioned by the High Court of Justice of England and Wales on November 16, 2016 the terms of the Original Retail Notes were amended and such amended Original Retail Notes have become the 7.0% Extendable PIK Toggle Notes originally due February 15, 2022, as extended to April 15, 2022 and further automatically extended on October 15, 2020 to October 15, 2023 as a result of the senior debt facility which was in place prior to the RBL not being repaid or refinanced in full prior to October 15, 2020 (the "**Amended Retail Notes**").

Under the 7% Retail Notes, in certain circumstances interest owed on an interest payment date was not paid in cash but instead it was capitalized and satisfied through the issue of additional retail notes having the same terms and conditions as the 7% Retail Notes then outstanding (the "**Additional Retail Notes**" and together with the Amended Retail Notes, the "**7% Retail Notes**"). On February 15, 2017, the Company issued £5.4 million of Additional Retail Notes, on August 15, 2017, the Company issued £5.6 million of Additional Retail Notes, on February 15, 2018, the Company issued £5.8 million of Additional Retail Notes, on February 17, 2020, the Company issued £6.0 million of Additional Retail Notes, on August 17, 2020, the Company issued £6.2 million of Additional Retail Notes and on February 15, 2021, the Company issued £6.4 million of Additional Retail Notes.

On April 27, 2022, the Company concluded an exchange offer (the "**Exchange Offer**") to holders of the 7% Retail Notes whereby some holders exchanged their 7% Retail Notes for new sterling-denominated 9.00% notes due October 27, 2027 (the "9% Retail Notes"). As of June 30, 2022, $136.1 million of 7% Retail Notes remained outstanding.

The 7% Retail Notes are guaranteed on a subordinated basis by EnQuest Britain Limited, EnQuest ENS Limited, EnQuest Global Limited, EnQuest Heather Leasing Limited, EnQuest Heather Limited, EnQuest NWO Limited, EQ Petroleum Sabah Ltd and North Sea (Golden Eagle) Resources Ltd. (together, the "**7% Retail Notes Guarantors**").

The 7% Retail Notes are constituted under a trust deed dated January 24, 2013, as amended, novated, supplemented and/or restated from time to time, (the "**7% Retail Notes Trust Deed**") between, among others, the Company and U.S. Bank Trustees Limited, in its capacity as trustee for the holders of the 7% Retail Notes (the "**7% Retail Notes Trustee**").

Interest

The 7% Retail Notes bear a fixed rate of 7.0% per annum payable semi-annually in arrears on February 15 and August 15 in each year.

Form

The 7% Retail Notes have been issued in registered form.

Currency

The 7% Retail Notes are denominated in pounds sterling.

Maturity

The 7% Retail Notes mature on October 15, 2023, as automatically extended on October 15, 2020 from April 15, 2022 as a result of the prior existing senior debt facility not being repaid or refinanced in full prior to October 15, 2020.

Ranking of 7% Retail Notes

The 7% Retail Notes rank *pari passu* without preference or priority among themselves and in right of payment with all existing and future obligations of the Company that are not contractually subordinated in right of payment thereto.

Ranking of the 7% Retail Notes Guarantees

The guarantees of the 7% Retail Notes are subordinated in right of payment to all existing and future senior obligations of the 7% Retail Notes Guarantors, including under the RBL.

Negative pledge

So long as any 7% Retail Notes remain outstanding, neither the Company nor any of its subsidiaries will create or have outstanding any security interest upon the whole or any part of its present or future undertakings, assets or revenues to secure any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock, or other securities which for the time being are, quoted, listed or dealt in or traded on any stock exchange or over the counter or other securities market, without at the same time or prior thereto according the same security to the holders of the 7% Retail Notes.

Events of default

The 7% Retail Notes contain customary events of default, including those relating to (a) non-payment of interest or principal; (b) breach of other obligations under the 7% Retail Notes or the 7% Retail Notes Trust Deed; (c) cross acceleration; (d) enforcement proceedings; (e) security enforcement; (f) insolvency; (g) winding up; (h) lack of authorizations and consents; (i) illegality; and (j) cross default of the Notes. The provisions include certain minimum thresholds and grace periods. In addition, in certain cases, a certification in writing that a particular event is materially prejudicial to the interests of the holders of the 7% Retail Notes is required from the 7% Retail Notes Trustee before the 7% Retail Notes can be accelerated.

Final redemption

Unless previously redeemed, purchased and cancelled, the 7% Retail Notes are due to be redeemed on October 15, 2023, automatically extended on October 15, 2020 from April 15, 2022, at their nominal amount.

Optional redemption

The Company has the right to redeem the 7% Retail Notes at any time at the make-whole amount. The holders of the 7% Retail Notes have the right to redeem the 7% Retail Notes prior to their final maturity upon a change of control, as specified in the terms and conditions of the 7% Retail Notes. The Company may also (prior to the expected maturity date) redeem the 7% Retail Notes as a result of changes in taxation such that the Company would be required to pay additional amounts to the holders of the 7% Retail Notes. In addition, the 7% Retail Notes may be redeemed prior to their maturity date in certain circumstances at the Company's discretion at the make-whole amount or at par.

Taxation

All payments in respect of 7% Retail Notes are made without withholding or deduction for, or on account of, any present or future taxes imposed by the United Kingdom unless and save to the extent that the withholding or deduction of such taxes is required by law. In that event, the Company will be obliged to pay additional amounts or, in the case of Additional Retail Notes, issue further Additional Retail Notes in respect of any such withholding or deduction, subject to certain exceptions.

Covenants

The 7% Retail Notes Trust Deed as originally executed contains customary covenants for the type of issuance, which are subject to caveats and limitations, including covenants to notify the 7% Retail Notes Trustee in the event of an event of default and to deliver to the 7% Retail Notes Trustee the Company's audited financial statements.

Financial covenants

The 7% Retail Notes do not contain any financial covenants.

Restricted Payments

The 7% Retail Notes contain a restriction on certain payments to Shareholders and their affiliates if the Company has not redeemed the 7% Retail Notes in an amount equal to any capitalized interest, together with accrued but unpaid interest.

Governing law

The 7% Retail Notes are governed by English law.

9% Retail Notes

The following description of the 9% Retail Notes is based on their terms and conditions in effect as at the date of this Offering Memorandum.

Overview

On April 27, 2022, pursuant to the Exchange Offer and an accompanying cash offer, the Company issued £133.3 million 9.00% notes due October 27, 2027.

The 9% Retail Notes are guaranteed on a joint and several basis (the "**9% Retail Notes Guarantee**") by EnQuest Britain Limited, EnQuest ENS Limited, EnQuest Global Limited, EnQuest Heather Limited, EnQuest Heather Leasing Limited, EnQuest NWO Limited, EnQuest Production Limited, EnQuest Petroleum Production Malaysia Ltd, NSIP (GKA) Limited, EnQuest Marketing and Trading Limited, EnQuest Petroleum Developments Malaysia Sdn. Bhd., EnQuest Advance Limited, EnQuest Advance Holdings Limited, EQ Petroleum Sabah Ltd and North Sea (Golden Eagle) Resources Ltd. (the "**9% Retail Notes Guarantors**").

The 9% Retail Notes are listed on the Financial Conduct Authority's Official List and admitted to trading on the London Stock Exchange's regulated market and through the electronic Order Book for Retail Bonds (ORB) market.

Interest

The 9% Retail Notes bear a fixed rate of 9.00% per annum payable semi-annually in arrears on April 27 and October 27 in each year.

Form

The 9% Retail Notes were issued in registered form.

Currency

The 9% Retail Notes are denominated in pounds sterling.

Maturity

The 9% Retail Notes will mature on October 27, 2027.

Ranking of 9% Retail Notes

The 9% Retail Notes rank *pari passu* without preference or priority among themselves.

Ranking of the 9% Retail Notes Guarantees

Each 9% Retail Note Guarantee is a subordinated obligation of the respective 9% Retail Note Guarantor; subordinated in right of payment to all existing and future senior obligations of that 9% Retail Note Guarantor, including, where applicable, such 9% Retail Note Guarantor's obligations under the RBL; *pari passu* in right of payment with all existing and future senior subordinated obligations of that 9% Retail Note Guarantor, including the Notes; senior in right of payment to all future obligations of that 9% Retail Note Guarantor that are expressly contractually subordinated to that 9% Retail Note Guarantee; and effectively subordinated to all existing and future secured obligations of that 9% Retail Note Guarantor (including under the RBL Facility), to the extent of the value of the property and assets securing such obligations, unless such assets also secure the 9% Retail Note Guarantee on an equal and rateable or senior basis. The 9% Retail Note Guarantee will be subject to release under certain circumstances.

Negative Pledge

So long as any 9% Retail Notes are outstanding, neither the Company nor any of its subsidiaries will create or have outstanding any security interest upon the whole or any part of its present or future undertakings, assets or revenues to secure any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock, or other securities which for the time being are, quoted, listed or dealt in or traded on any stock exchange or over the counter or other securities market, without at the same time or prior thereto according the same security to the holders of the 9% Retail Notes.

Events of Default

The 9% Retail Notes contain customary events of default, including those relating to (a) non-payment of interest or principal; (b) breach of other obligations under the 9% Retail Notes or the 9% Retail Notes Trust Deed; (c) cross acceleration; (d) enforcement proceedings; (e) security enforcement; (f) insolvency; (g) winding up; (h) lack of authorizations and consents; (i) illegality; and (j) Guarantee not in full force and effect. The provisions include certain minimum thresholds and grace periods. In addition, in certain cases, a certification in writing that a particular event is materially prejudicial to the interests of the holders of the 9% Retail Notes is required from the 9% Retail Notes Trustee before the 9% Retail Notes can be accelerated.

Final redemption

Unless previously redeemed, purchased or cancelled, the 9% Retail Notes are due to be redeemed on October 27, 2027 at their nominal amount.

Optional redemption

The 9% Retail Notes may be redeemed prior to their maturity date in certain circumstances at the Company's discretion at an optional redemption price calculated as a specified percentage of the principal amount of the 9% Retail Notes, being 104% if the redemption falls on or after April 27, 2024 but before April 27, 2025, 102% if the redemption falls on or after April 27, 2025 but before April 27, 2026 and 100% if the redemption falls on or after April 27, 2026. The Company may also (prior to the expected maturity date) redeem the 9% Retail Notes as a result of changes in taxation such that the Company would be required to pay additional amounts to the holders of the 9% Retail Notes.

Taxation

All payments in respect of 9% Retail Notes are made without withholding or deduction for, or on account of, any present or future taxes imposed by the United Kingdom unless and save to the extent that the withholding or deduction of such taxes is required by law. In that event, the Company or, as the case may be, the relevant Guarantor(s) shall pay such additional amounts as shall result in receipt by the holders of the 9% Retail Notes of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions.

Covenants

The 9% Retail Notes Trust Deed contains customary covenants for the type of issuance, which are subject to caveats and limitations, including covenants to notify the 9% Retail Notes Trustee in the event of an event of default and to deliver to the 9% Retail Notes Trustee the Company's audited financial statements.

Financial covenants

The 9% Retail Notes do not contain any financial covenants.

Governing law

The 9% Retail Notes are governed by English law.

DESCRIPTION OF NOTES

EnQuest PLC (the "**Company**") will issue the Notes under an indenture (the "**Indenture**") among, *inter alios,* the Company, the Guarantors, Deutsche Bank Trust Company Americas, as trustee (the "**Trustee**") and Deutsche Bank Trust Company Americas, as Principal Paying Agent, Transfer Agent and Registrar in a private transaction that is not subject to the registration requirements of the U.S. Securities Act. The terms of the Notes include those set forth in the Indenture. The Indenture will not incorporate or include or be subject to any of the provisions of the U.S. Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the Indenture and the Notes and refers to the Guarantee Subordination Agreement and certain other agreements relating to the Notes. This description does not restate those agreements in their entirety. We urge you to read the Indenture, the Notes and the Guarantee Subordination Agreement because they, and not this description, define your rights as holders of the Notes. Copies of the Indenture, the form of Note and the Guarantee Subordination Agreement are available as set forth below under "—*Additional information*." The Indenture, the Notes and the Note Guarantees (as defined herein) will be subject to the terms of the Guarantee Subordination Agreement and any additional subordination agreements entered into in the future. The terms of the Guarantee Subordination Agreement are important to understand the terms and ranking of the Note Guarantees. See "*Description of certain financing arrangements—Guarantee Subordination Agreement*" for a description of the material terms of the Guarantee Subordination Agreement.

You can find the definitions of certain terms used in this "*Description of Notes*" under the subheading "—*Certain definitions*." Certain defined terms used in this "*Description of Notes*" but not defined below under "—*Certain definitions*" or elsewhere in this description have the meanings assigned to them in the Indenture. For purposes of this "*Description of Notes*," the term "**Company**" refers only to EnQuest PLC and not to any of its subsidiaries, and unless the context requires otherwise, references in this "*Description of Notes*" to the Notes include the Notes and any additional Notes that are issued.

The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

Brief description of the Notes and the Note Guarantees

The Notes

The Notes will be:

- general obligations of the Company;
- *pari passu* in right of payment with all existing and future obligations of the Company that are not expressly contractually subordinated in right of payment to the Notes, including under the RBL Facility and MTN Program Notes;
- senior in right of payment to all future obligations of the Company that are subordinated in right of payment to the Notes;
- effectively subordinated to all existing and future secured obligations of the Company, including obligations under the RBL Facility, to the extent of the value of the property and assets securing such obligations, unless such assets also secure the Notes on an equal and ratable or senior basis;
- structurally subordinated to all existing and future obligations of the Company's Subsidiaries that do not guarantee the Notes; and
- guaranteed on a senior subordinated basis by the Guarantors, subject to limitations under applicable law as set forth below under the caption "—*Note Guarantees*."

The Note Guarantees

The Notes will be guaranteed by the Guarantors. Each Note Guarantee will be:

- a senior subordinated obligation of that Guarantor;

- subordinated in right of payment to all existing and future senior obligations of that Guarantor, including such Guarantor's obligations under the RBL Facility;

- *pari passu* in right of payment with all existing and future senior subordinated obligations of that Guarantor;

- senior in right of payment to all future obligations of that Guarantor that are expressly contractually subordinated to that Guarantor's Note Guarantee; and

- effectively subordinated to all existing and future secured obligations of that Guarantor (including under the RBL Facility), to the extent of the value of the property and assets securing such obligations, unless such assets also secure the Note Guarantees on an equal and ratable or senior basis.

Not all of the Company's Subsidiaries will guarantee the Notes on the Issue Date and the Company will not have any obligation to cause any of its Subsidiaries to guarantee the Notes in the future (except as required under the circumstances described below under the caption "*—Certain covenants—Limitation on guarantees of indebtedness by restricted subsidiaries*"). In the event of a bankruptcy, liquidation or reorganization of any Subsidiary that is not a Guarantor, such Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company or a Guarantor. As of and for the six months ended June 30, 2022, the Company's Subsidiaries that are not the Guarantors collectively represented 18% of the Company's consolidated total assets and did not contribute to the Company's revenue and other operating income. As of June 30, 2022, on a *pro forma* basis after giving effect to the Offering, such non-Guarantors had no third-party debt. See "*Risk factors—Risks relating to the Notes and our structure—The Notes and Note Guarantees will be structurally subordinated to the liabilities and preference shares (if any) of our non-Guarantor subsidiaries*."

As of the Issue Date, all of the Company's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the caption "*—Certain covenants—Designation of restricted and unrestricted subsidiaries*," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Indenture.

Principal, maturity and interest

The Company will issue $305.0 million in aggregate principal amount of Notes in this offering. The Company may issue additional Notes (the "**Additional Notes**") under the Indenture from time to time after this offering. Any issuance of Additional Notes is subject to all of the covenants in the Indenture, including the covenant described below under the caption "*—Certain covenants—Incurrence of indebtedness and issuance of preferred stock*." The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase, *provided, however*, that in the event any Additional Notes are not fungible with the Notes for U.S. federal income tax purposes, such nonfungible Additional Notes will be issued with a separate CUSIP number or common code and ISIN, as applicable, so that they are distinguishable from the Notes. The Company will issue Notes in minimum denominations of $200,000 and integral multiples of $1,000 in excess thereof. The Notes will mature on November 1, 2027.

Interest on the Notes will accrue at the rate of 11.625% per annum and will be payable semi-annually in arrears on May 1 and November 1, commencing on May 1, 2023. Interest on overdue principal and interest, if any, will accrue at a rate that is 1.0% higher than the then applicable interest rate on the Notes. The Company will make each interest payment to the holders of record on the Business Day immediately preceding the applicable interest payment date.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Transfer and exchange

Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**144A Global Note**"). Notes sold outside the United States pursuant to Regulation S under the U.S. Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**Reg S Global Note**" and, together with the 144A Global Note, the "**Global Notes**").

Ownership of interests in the Global Notes ("**Book-Entry Interests**") will be limited to persons that have accounts with The Depository Trust Company ("**DTC**") or persons that may hold interests through such participants, including through Euroclear and Clearstream. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "*Notice to investors*." In addition, transfers of Book-Entry Interests between participants in DTC, participants in Euroclear or participants in Clearstream will be effected by DTC, Euroclear or Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by DTC, Euroclear or Clearstream and their respective participants.

Book-Entry Interests in a 144A Global Note, or the "144A Book-Entry Interests," may be transferred to a person who takes delivery in the form of Book-Entry Interests in a Reg S Global Note, or the "Reg S Book-Entry Interests," only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the U.S. Securities Act. During the 40-Day Period (as defined in "*Book-entry, delivery and form*"), Reg S Book-Entry Interests may be transferred to a person who takes delivery in the form of 144A Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with applicable transfer restrictions and any applicable securities laws of any state of the United States or any other jurisdiction.

Any Book-Entry Interest that is transferred will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If definitive Notes in registered form ("**Definitive Registered Notes**") are issued, they will be issued only in denominations of $200,000 and integral multiples of $1,000 in excess thereof upon receipt by the Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by DTC from the participant which owns the relevant Book-Entry Interest. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Company in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under "*Notice to investors*."

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in denominations of $200,000 in principal amount or integral multiples of $1,000 in excess thereof. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging holder, among other things, to furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at DTC, Euroclear or Clearstream, where appropriate, to furnish certain certificates and opinions, and to pay any taxes, duties and governmental charges in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the holder of the Notes, other than any transfer taxes or similar governmental charges payable in connection with such transfer or exchange.

Notwithstanding the foregoing, the Company is not required to register the transfer of any Definitive Registered Notes:

(1) for a period of 15 calendar days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 calendar days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(3) for a period of 15 calendar days prior to the record date with respect to any interest payment date; or

(4) which the holder of the Notes has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Sale Offer.

The Company, the Trustee, the Paying Agents, the Transfer Agent and the Registrar will be entitled to treat the registered Holder of a Global Note as the owner thereof for all purposes.

Paying agent and registrar for the Notes

The Company will maintain one or more paying agents (each, a "**Paying Agent**") for the Notes in the Borough of Manhattan, City of New York. Deutsche Bank Trust Company Americas in New York will act as the initial principal Paying Agent (the "**Principal Paying Agent**").

The Company will also maintain both a registrar (the "**Registrar**") and a transfer agent (the "**Transfer Agent**") in the Borough of Manhattan, City of New York. The initial Registrar will be Deutsche Bank Trust Company Americas, and the initial Transfer Agent will be Deutsche Bank Trust Company Americas. The Registrar will maintain a register reflecting record ownership of the Global Notes and any Definitive Registered Notes outstanding from time to time, and the Transfer Agent will facilitate transfers of any Definitive Registered Notes on behalf of the Company.

The Company may change the Paying Agent, the Registrar or the Transfer Agent without prior notice to the holders of the Notes. For so long as the Notes are listing on the Official List of the Luxembourg Stock Exchange and if and to the extent the rules of the Authority so require the Company will notify the Authority of any change of Paying Agent, Registrar or Transfer Agent in respect of the Notes.

Note Guarantees

The Notes will be guaranteed by the Guarantors, which comprise certain of the Company's current Subsidiaries that are borrowers and guarantors under the RBL Facility. The Note Guarantees will be joint and several obligations of the Guarantors. The obligations of the Guarantors under the Note Guarantees will be subordinated in right of payment to the Guarantors' obligations under the RBL Facility, and may be subordinated in right of payment to the Guarantors' future senior obligations. See "*—Subordination of the Note Guarantees*." The obligations of the Guarantors will be contractually limited under the applicable Note Guarantees to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Guarantors and their respective shareholders, directors and general partners. See "*Risk factors—Risks relating to the Notes and our structure—Each Note Guarantee will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability*."

Note Guarantees release

The Note Guarantee of a Guarantor will be automatically and unconditionally released and discharged without any further action by the Company, the relevant Guarantor or the Trustee, and such Guarantor's obligations under the Note Guarantee, the Indenture, the Guarantee Subordination Agreement and any Additional Guarantee Subordination Agreement will terminate and be of no further force and effect:

(1) in connection with any sale or other disposition of all or substantially all of the properties or assets of that Guarantor (including by way of merger, amalgamation or consolidation) to a Person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary of the Company, if the sale or other disposition does not violate the provisions set forth below under "*—Repurchase at the option of holders—Asset sales*";

(2) in connection with any sale or other disposition of the Capital Stock of that Guarantor (whether by direct sale or through a holding company) to a Person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary of the Company, if the sale or other disposition does

not violate the provisions set forth below under "*—Repurchase at the option of holders—Asset sales*" and as a result of such disposition such Guarantor no longer qualifies as a Subsidiary of the Company;

(3) if the Company designates such Guarantor (or any parent entity thereof) as an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;

(4) as a result of a transaction permitted by "*—Certain covenants—Merger, consolidation or sale of assets*;"

(5) upon repayment in full of the Notes or upon Legal Defeasance or Covenant Defeasance as described below under the caption "*—Legal defeasance and covenant defeasance*" or upon satisfaction and discharge of the Indenture as described under the caption "*—Satisfaction and discharge*";

(6) upon the liquidation, winding up, dissolution or corporate reorganization of such Guarantor on a solvent basis; *provided* that no Default or Event of Default has occurred and is continuing or would be caused thereby;

(7) as described under "*—Amendment, supplement and waiver*";

(8) in connection with the implementation of a Permitted Reorganization;

(9) upon such Guarantor consolidating or amalgamating with, merging into or transferring all of its properties or assets to the Company or another Guarantor, and as a result of, or in connection with, such transaction such Guarantor dissolving or otherwise ceasing to exist;

(10) as described in the fourth paragraph of the covenant described below under "*—Certain covenants—Limitation on guarantees of indebtedness by restricted subsidiaries*"; or

(11) in connection with certain enforcement actions taken by the creditors under the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement.

The Indenture will provide that any release of a Guarantee may be evidenced, at the Company's option and expense, by the delivery by the Company to the Trustee of an Officer's Certificate of the Company. The Trustee shall take all necessary actions reasonably requested by the Company, including the granting of releases or waivers, to effectuate any release in accordance with these provisions, subject to customary protections and indemnifications.

Subordination of the Note Guarantees

On the Issue Date, the Trustee shall accede to the Guarantee Subordination Agreement entered into on April 9, 2014, among others, the Company, the agents and security trustee under the senior facility, as described under "*Description of certain financing arrangements—Guarantee subordination agreement*." The Note Guarantees will be subordinated in right of payment to outstanding claims under the Senior Debt of the Guarantors, including obligations under the RBL Facility. In addition, the payment on each Note Guarantee will be subject to provisions in the Guarantee Subordination Agreement relating to payment blockage, restrictions on enforcement, turnover, release and other customary senior debt protections. See "*Description of certain financing arrangements—Guarantee subordination agreement*."

Additional amounts

All payments made by or on behalf of the Company under or with respect to the Notes or any of the Guarantors with respect to any Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes unless the withholding or deduction for, or on account of, such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of (1) any jurisdiction in which the Company or any Guarantor is then incorporated, organized or resident for tax purposes or any political subdivision thereof or therein or (2) any jurisdiction from or through which payment is made by or on behalf of the Company or any Guarantor (including the jurisdiction of any Paying Agent) or any political subdivision thereof or therein (each of clause (1) and (2), a "**Tax Jurisdiction**") will at any time be required to be made from any payments made by the Company under or with respect to the Notes or any of the Guarantors with respect to any Note Guarantee, including payments of principal, redemption price, purchase price, interest or premium, the Company or the relevant Guarantor, as applicable, will pay such additional amounts (the "**Additional Amounts**") as may be necessary in order that the net amounts received in respect of such payments by each holder after such withholding or deduction (including any such withholding or deduction from such Additional Amounts) will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction; *provided, however,* that no Additional Amounts will be payable with respect to:

(1) any Taxes, to the extent such Taxes would not have been imposed but for the existence of any present or former connection between the holder (or between a fiduciary, settler, beneficiary, member or shareholder of, or possessor of a power over, the relevant holder, if the relevant holder is an estate, nominee, trust, partnership, limited liability company or corporation) or the beneficial owner of the Notes and the relevant Tax Jurisdiction (including, without limitation, being a resident of such jurisdiction for tax purposes), other than the mere holding of such Note, the enforcement of rights under such Note or under a Note Guarantee or the receipt of any payments in respect of such Note or a Note Guarantee;

(2) any Taxes, to the extent such Taxes were imposed as a result of the presentation of a Note for payment (where presentation is required) more than 30 days after the relevant payment is first made available for payment to the holder (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30- day period);

(3) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(4) Taxes imposed on or with respect to a payment made to a holder or beneficial owner of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Notes to another Paying Agent;

(5) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Note Guarantee;

(6) any Taxes, to the extent such Taxes are imposed, withheld or deducted by reason of the failure of the holder or beneficial owner of Notes to comply with any reasonable written request of the Company or the relevant Guarantor, addressed to the holder and made at least 30 days before any such withholding or deduction is to be made, to satisfy any certification, identification, information or other reporting requirements, whether required by statute, treaty, regulation or administrative practice of a Tax Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Tax Jurisdiction (including, without limitation, a certification that the holder or beneficial owner is not resident in the Tax Jurisdiction), but in each case, only to the extent the holder or beneficial owner is legally entitled to satisfy such requirement;

(7) any Taxes imposed or withheld pursuant to Sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (the "**Code**") as of the Issue Date (or any amended or successor version of such sections), any current or future regulations promulgated thereunder, any official interpretations thereof, any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any agreements entered into pursuant to section 1471(b)(1) of the Code;

(8) any Tax that is imposed on or with respect to any payment made to any holder who is a fiduciary or partnership or an entity that is not the sole beneficial owner of such payment, to the extent that a beneficiary or settlor (for tax purposes) with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of the applicable Note; or

(9) any combination of items (1) through (8) above.

In addition to the foregoing, the Company and the Guarantors will also pay and indemnify the Trustee, Paying Agents and holders for any present or future stamp, issue, registration, court or documentary taxes, or any other excise or property taxes, charges or similar levies (including penalties, interest and any other reasonable expenses related thereto), which are levied by any Tax Jurisdiction on the execution, delivery, issuance, enforcement or registration of any of the Notes, the Indenture or any Note Guarantee or any other document referred to therein, except for any such taxes imposed or levied as a result of a transfer after the Issue Date.

If the Company or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Note Guarantee, the Company or the relevant Guarantor, as the case may be, will deliver to the Trustee and Paying Agents on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 30 days prior to that payment date, in which case the Company or the relevant Guarantor shall notify the Trustee promptly thereafter) an Officers' Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officers' Certificate must also set forth any other information reasonably necessary to enable any Paying Agent to pay Additional Amounts to holders on the relevant payment date. The Trustee and Paying Agents shall be entitled to rely solely on such Officers' Certificate as conclusive proof that such payments are necessary.

The Company or the relevant Guarantor will make all withholdings and deductions for, or on account of, Taxes required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Company or the relevant Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Company or the relevant Guarantor will furnish to the Trustee (or to a holder upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Company or the Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee) by such entity.

Whenever in the Indenture or in this "*Description of Notes*" there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or any other amount payable under, or with respect to, any of the Notes or any Note Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The above obligations will survive any termination, defeasance or discharge of the Indenture or any transfer by a holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Company or any Guarantor is incorporated, organized or resident for tax purposes or any political subdivision thereof or therein or any jurisdiction from or through which such Person makes any payment on the Notes (or any Note Guarantee) or any political subdivision thereof or therein.

Optional redemption

Except as otherwise described below, the Notes will not be redeemable at the Company's option prior to maturity. The Company and any Restricted Subsidiary may, however, acquire, or cause to be acquired, the Notes by means other than a redemption, whether pursuant to a tender offer, open market purchase or otherwise, so long as the acquisition does not violate the terms of the Indenture.

Prior to November 1, 2024 the Company may, at its option, on any one or more occasions, redeem up to 40% of the aggregate principal amount of the Notes (including any Additional Notes issued after the Issue Date) at a redemption price equal to 111.625% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, subject to the right of the holders on the relevant record date to receive interest due on the relevant interest payment date, with all or a portion of the net proceeds of one or more Equity Offerings; *provided* that at least 60% of the aggregate principal amount of the Notes (including any Additional Notes) issued under the Indenture remains outstanding immediately after the occurrence of such redemption; and *provided, further,* that such redemption shall occur within 180 days of the date of the closing of any such Equity Offering.

In addition, at any time prior to November 1, 2024 the Company may also redeem, in whole or in part, the Notes at a redemption price equal to 100% of the principal amount of Notes to be redeemed, plus the Applicable Premium in respect of, and accrued and unpaid interest to the redemption date, subject to the rights of the holders on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding two paragraphs and except pursuant to "*—Redemption for changes in taxes*," the Notes will not be redeemable at the Company's option prior to November 1, 2024.

On or after November 1, 2024, the Company may on any one or more occasions redeem all or a part of the Notes at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on November 1 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Redemption Price
2024	105.8125%
2025	102.9062%
2026 and thereafter	100.0000%

Prior to November 1, 2024, the Company may redeem during each twelve-month period commencing with the Issue Date up to 10% of the original principal amount of the Notes at its option at a redemption price equal to 103% of the principal amount of the Notes so redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date.

All redemptions of the Notes will be made upon not less than 10 days' nor more than 60 days' prior notice, except that a redemption notice may be made more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. Unless the Company defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portions thereof called for redemption on the applicable redemption date. If a redemption date is not a Business Day, payment may be made on the next succeeding day that is a Business Day, and no interest shall accrue on any amount that would not have been otherwise payable on such redemption date if it were a Business Day for the intervening period.

Any redemption including, without limitation, upon an Equity Offering may, at the Company's discretion, be subject to one or more conditions precedent, including, but not limited to, completion of the related Equity Offering.

In addition, if such redemption is subject to the satisfaction of one or more conditions precedent, the notice of redemption shall describe each such condition and, in the Company's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied or waived, or such redemption may not occur and the notice of redemption may be rescinded in the event that any or all such conditions shall not have been satisfied or waived by the redemption date, or by the redemption date so delayed.

Subject to the applicable procedures of DTC, the Company may redeem Notes pursuant to one or more of the relevant provisions of the Indenture, and a single notice of redemption may be delivered with respect to redemptions made pursuant to different provisions. Any such notice may provide that redemptions made pursuant to different provisions will have different redemption dates.

Optional redemption upon certain tender offers

In connection with any tender offer or other offer to purchase for all of the Notes, including a Change of Control Offer or Asset Sale Offer, if holders of not less than 90% of the aggregate principal amount of the then outstanding Notes validly tender and do not validly withdraw such Notes in such tender offer or other offer and the Company, or any third party making such tender offer or other offer in lieu of the Company, purchases all of the Notes validly tendered and not validly withdrawn by such holders, all of the holders of the Notes will be deemed to have consented to such tender offer or other offer and, accordingly, the Company or such third party will have the right upon not less than 10 nor more than 60 days' notice following such purchase date, to redeem all Notes that remain outstanding following such purchase at a price equal to the price paid (excluding any early tender premium or similar payment) to each other holder in such tender offer or other offer, plus, to the extent not included in the tender offer payment or other offer payment, accrued and unpaid interest, if any, thereon, to, but excluding, the date of such redemption.

Redemption for changes in taxes

The Company may redeem the Notes, in whole but not in part, at its discretion at any time upon giving not less than 10 nor more than 60 days' prior notice to the holders of the Notes (with a copy to the Trustee and Paying Agent) (which notice will be irrevocable and given in accordance with the procedures described in "—*Selection and notice*"), at a redemption price equal to 100% of the aggregate principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption (a "**Tax Redemption**

Date") and all Additional Amounts (if any) then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of holders of the Notes on the relevant record date to receive interest due on an interest payment date that is on or prior to the Tax Redemption Date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes, the Company or a Guarantor is or would be required to pay Additional Amounts, and the Company or Guarantor cannot avoid any such payment obligation by taking reasonable measures available to it, including, for the avoidance of doubt, the appointment of a new Paying Agent where this would be reasonable (provided that changing the jurisdiction of the Company or any Guarantor is not a reasonable measure for the purposes of this section), and the requirement arises as a result of:

(1) any amendment to, or change in, the laws or treaties (or any protocols, regulations or rulings promulgated thereunder) of a relevant Tax Jurisdiction which change or amendment is announced and becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date); or

(2) any amendment to, or change in, an official position, or the introduction of an official position, regarding the interpretation, administration or application of such protocols, laws, regulations, treaties or rulings (including by virtue of a holding, judgment or order by a court of competent jurisdiction or a change in published administrative practice) which amendment, change or introduction is announced and becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date).

The Company will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the Company or Guarantor would be obligated to make such payment or withholding if a payment in respect of the Notes or Note Guarantees was then due, and the obligation to pay Additional Amounts must be in effect at the time such notice is given. Prior to the publication or provision of any notice of redemption of the Notes pursuant to the foregoing, the Company will deliver to the Trustee an opinion of independent tax counsel of recognized standing, to the effect that there has been such amendment or change or introduction which would entitle the Company to redeem the Notes hereunder. In addition, before the Company publishes or provides notice of redemption of the Notes as described above, it will deliver to the Trustee an Officers' Certificate to the effect that the obligation to pay Additional Amounts cannot be avoided by the Company or Guarantor taking reasonable measures available to it.

The Trustee will accept and shall be entitled to rely on such Officers' Certificate and opinion of counsel as sufficient evidence, without further inquiry, of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the holders of the Notes.

Mandatory redemption

The Company is not required to make mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Company may be required to offer to purchase the Notes as described under the captions "*—Repurchase at the option of holders—Change of control*" and "*—Asset sales*."

Repurchase at the option of holders

Change of control

If a Change of Control occurs, each holder of Notes will have the right to require the Company to repurchase all or any part (equal to $200,000 or an integral multiple of $1,000 in excess thereof) of that holder's Notes pursuant to an offer (the "**Change of Control Offer**") on the terms set forth in the Indenture. In the Change of Control Offer, the Company will offer a payment in cash (the "**Change of Control Payment**") equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest on the Notes repurchased to the date of purchase (the "**Change of Control Payment Date**"), subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Company will provide a notice to each holder (with a copy to the Trustee) or otherwise deliver a notice (with a copy to the Trustee) in accordance with the procedures described under "—*Selection and notice*," describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 10 days and no later than 60 days from the date such notice is provided, pursuant to the procedures required by the Indenture and described in such notice.

On the Change of Control Payment Date, the Company will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Principal Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and

(3) deliver or cause to be delivered to the Principal Paying Agent the Notes properly accepted.

The Principal Paying Agent will promptly provide to each holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee (or its authentication agent) will promptly authenticate and provide (or cause to be transferred by book entry) to each holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in a principal amount of $200,000 or an integral multiple of $1,000 in excess thereof. Any Note so accepted for payment will cease to accrue interest on and after the Change of Control Payment Date unless the Company defaults in making the Change of Control Payment. The Company will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described herein that require the Company to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture will not contain provisions that permit the holders of the Notes to require that the Company repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Company will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption of all outstanding Notes has been given pursuant to the Indenture as described above under the caption "—*Optional redemption*," unless and until there is a default in payment of the applicable redemption price.

The occurrence of certain events that would constitute a Change of Control could constitute a default under the RBL Facility and could also allow holders of MTN Program Notes to exercise a put option in respect of MTN Program Notes. Future debt of the Company or its Subsidiaries may also contain descriptions of certain change of control events that, if they occurred, would constitute a default under such debt or require such debt to be repurchased. In addition, the exercise by the holders of the Notes of their right to require the Company to purchase the Notes could cause a default under, or require a repurchase of, other debt, even if the Change of Control itself does not, due to the financial effect of the purchase on the Company. If a Change of Control Offer is made, there can be no assurance that the Company will have sufficient funds or other resources to pay the Change of Control Payment for all the Notes that might be delivered by holders thereof seeking to accept the Change of Control Offer and to repurchase any other debt that may be required to be repaid following a change of control. See "*Risk factors—Risks relating to the Notes and our structure—We may not be able to obtain the funds required to repurchase the Notes upon a change of control*."

Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, and conditioned upon the occurrence of such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making the Change of Control Offer.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Company and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of the Notes to require the Company to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the properties or assets of the Company and its Restricted Subsidiaries may be uncertain.

The provisions under the Indenture relating to the Company's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the consent of the holders of a majority in aggregate principal amount of the Notes.

If and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Company will notify the Authority of such Change of Control Offer.

Asset sales

The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) the Company (or a Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration received in the Asset Sale by the Company or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

  (a) any liabilities, as shown on the most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Note Guarantee) that are assumed by the transferee of any such assets pursuant to an agreement that releases the Company or such Restricted Subsidiary from further liability or indemnifies the Company or such Restricted Subsidiary against further liabilities;

  (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of the Asset Sale, to the extent of the cash or Cash Equivalents received in that conversion;

  (c) with respect to any Asset Sale of oil and gas properties by the Company or any of its Restricted Subsidiaries, the costs and expenses related to the exploration, development, completion or production of such oil and gas properties and activities related thereto agreed to be assumed by the transferee (or an Affiliate thereof);

  (d) any Capital Stock or other assets of the kind referred to in clauses (3) or (4) of the next paragraph of this covenant;

  (e) Indebtedness (other than Subordinated Obligations) of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, to the extent that the Company and each other Restricted Subsidiary are released from any Guarantee of such Indebtedness in connection with such Asset Sale;

  (f) consideration consisting of Indebtedness of the Company or any Guarantor received from Persons who are not the Company or any Restricted Subsidiary;

  (g) accounts receivable of a business retained by the Company or any Restricted Subsidiary, as the case may be, following the sale of such business; and

  (h) any Designated Non-Cash Consideration received by the Company or any Restricted Subsidiary in such Asset Sales having an aggregate Fair Market Value, taken together with all other Designated Non-Cash Consideration received pursuant to this clause (g) that is at that time outstanding, not to exceed the greater of (x) $250.0 million and (y) 5.0% of Consolidated Total Assets at the time of the receipt of such Designated Non-Cash Consideration (with the Fair Market Value of each item of Designated Non- Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, the Company or one of its Restricted Subsidiaries may apply such Net Proceeds (at the option of the Company or such Restricted Subsidiary):

(1) to purchase the Notes pursuant to an offer to all holders of Notes at a purchase price equal to at least 100% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase (a "**Notes Offer**");

(2) to repay Senior Debt;

(3) to invest in Additional Assets;

(4) to make a capital expenditure; or

(5) to enter into a binding commitment to apply the Net Proceeds pursuant to clauses (2), (3) or (4) of this paragraph; *provided* that such binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment until the earlier of (x) the date on which such repayment, investment or expenditure is consummated, and (y) the 180th day following the expiration of the aforementioned 365-day period.

Pending the final application of any Net Proceeds, the Company or any Restricted Subsidiary may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture. Any Net Proceeds from Asset Sales that are not applied or invested pursuant to the second paragraph of this covenant will constitute "**Excess Proceeds**."

When the aggregate amount of Excess Proceeds exceeds \$50.0 million, within ten Business Days thereof, the Company will make an offer (an "**Asset Sale Offer**") to all holders of Notes and may make an offer to all holders of other Indebtedness that is *pari passu* with the Notes or any Note Guarantees to purchase, prepay or redeem with the proceeds of sales of assets the maximum principal amount of Notes and such other *pari passu* Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price for the Notes in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the date of purchase, prepayment or redemption, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Company or any of its Restricted Subsidiaries may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and other *pari passu* Indebtedness tendered into (or to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds or if the aggregate amount of Notes tendered pursuant to a Notes Offer exceeds the amount of the Net Proceeds so applied, the Company will select the Notes and such other *pari passu* Indebtedness, if applicable, to be purchased on a *pro rata* basis or, in the case of Notes issued in global form as discussed under "*Book-entry, delivery and form*," based on a method that most nearly approximates a *pro rata* selection as the Company deems fair and appropriate unless otherwise required by applicable law or applicable stock exchange or depositary requirements, based on the amounts tendered or required to be prepaid or redeemed. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

The Company will comply with the requirements of Rule 14e-1 under the U.S. Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with each repurchase of Notes pursuant to a Change of Control Offer, an Asset Sale Offer or a Notes Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control, Asset Sale or Notes Offer provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control, Asset Sale or Notes Offer provisions of the Indenture by virtue of such compliance.

Selection and notice

If less than all of the Notes are to be redeemed at any time, the Trustee, a Paying Agent or the Registrar will select Notes for redemption on a *pro rata* basis or in accordance with the procedures of DTC (or, in the case of Notes issued in global form as discussed under "*Book-Entry, Delivery and Form*," based on a method that most nearly approximates a *pro rata* selection) unless otherwise required by law or applicable stock exchange or depository requirements.

No Notes of $200,000 or less can be redeemed in part. Notices of redemption will be provided at least 10 days but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address, except that redemption notices may be provided more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture.

If the Company elects to redeem the Notes of portions thereof and requests the Trustee (or such other entity directed, designated or appointed by the Trustee in accordance with the provisions set forth under "*Satisfaction and Discharge*") to distribute to the holders any amounts deposited in trust (which, for the avoidance of doubt, will include accrued and unpaid interest to the date fixed for redemption) prior to the date fixed for redemption in accordance with the provisions set forth under "*Satisfaction and Discharge*," the applicable redemption notice will state that holders will receive such amounts deposited in trust prior to the date fixed for redemption and state the payment date.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the holder of Notes upon cancellation of the original Note. A notice of redemption shall state whether the redemption is conditioned on any events and, if so, a detailed explanation of such conditions. Subject to the satisfaction of any conditions precedent set forth in a notice of redemption, Notes called for redemption become due on the date fixed for redemption. On or after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

None of the Trustee, any Paying Agent or the Registrar shall be liable for any such selections made by them in accordance with the provisions described in the four preceding paragraphs.

For Notes which are represented by global certificates held on behalf of DTC, notices may be given by delivery of the relevant notices to DTC in accordance with its applicable procedures for communication to entitled account holders in substitution for any required mailing. So long as any Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, any such notice to the holders of the Notes shall also be published with an appropriate internationally recognized wire service (including, without limitation, through the newswire service of Bloomberg, or if Bloomberg does not then operate, any similar agency) or, to the extent and in the manner permitted by such rules, posted on the official website of the Exchange and, in connection with any redemption, the Company will notify the Authority of any change in the principal amount of Notes outstanding.

Certain covenants

Restricted payments

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of the Company's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any such payment or distribution made in connection with any merger, amalgamation or consolidation involving the Company or any of its Restricted Subsidiaries) or to the direct or indirect holders of the Company's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company and other than dividends or distributions payable to the Company or a Restricted Subsidiary of the Company);

(2) repurchase, redeem or otherwise acquire or retire for value (including, without limitation, any such purchase, redemption, acquisition or retirement made in connection with any merger, amalgamation or consolidation involving the Company) any Equity Interests of the Company or any direct or indirect parent of the Company;

(3) make any principal payment on or with respect to, or repurchase, redeem, defease or otherwise acquire or retire for value, prior to the Stated Maturity thereof, any Indebtedness of the Company or any Guarantor that is expressly contractually subordinated in right of payment to the Notes or to any Note Guarantee

(excluding any intercompany Indebtedness between or among the Company and/or any of its Restricted Subsidiaries), except (i) a payment of principal at the Stated Maturity thereof or (ii) the repurchase, redemption or other acquisition of Indebtedness in anticipation of satisfying a sinking fund obligation, principal installment or scheduled maturity, in each case due within one year of the date of such repurchase, redemption or other acquisition; or

(4) make any Restricted Investment;

(all such payments and other actions set forth in clauses (1) through (4) above being collectively referred to as "**Restricted Payments**"), unless, at the time of and after giving effect to such Restricted Payment:

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(2) at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment had been made at the beginning of the applicable two half-year reference period, the Company would have been permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "*—Incurrence of indebtedness and issuance of preferred stock*"; and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Company and its Restricted Subsidiaries since the Issue Date (including Restricted Payments permitted below by clauses (1), (13) and (14) of the next succeeding paragraph, but excluding all other Restricted Payments permitted by the next succeeding paragraph), is equal to or less than the sum, without duplication, of:

(a) 50% of the Consolidated Net Income of the Company for the period (taken as one accounting period) from the beginning of the half-year period commencing immediately prior to the Issue Date to the end of the Company's most recently ended fiscal half-year for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit) provided that the amount taken into account pursuant to this sub-clause (a) shall not be less than zero; *plus*

(b) 100% of the aggregate net cash proceeds received, the Fair Market Value of marketable securities received and the Fair Market Value of other property or assets received by the Company subsequent to the Issue Date as a contribution to its common capital or from the issue or sale of Equity Interests of the Company (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of the Company that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of the Company); *plus*

(c)

(i) to the extent that any Restricted Investment that was made subsequent to the Issue Date is (x) sold, disposed of or otherwise cancelled, liquidated or repaid, 100% of the aggregate amount received in cash and the Fair Market Value of the marketable securities and other property received by the Company or any Restricted Subsidiary, or (y) made in an entity that subsequently becomes a Restricted Subsidiary, 100% of the Fair Market Value of the Restricted Investment of the Company and its Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary; *plus*

(ii) to the extent that any Unrestricted Subsidiary of the Company designated as such subsequent to the Issue Date is redesignated as a Restricted Subsidiary or is merged, amalgamated or consolidated with or into the Company or a Restricted Subsidiary, or all or substantially all of the properties or assets of such Unrestricted Subsidiary are transferred to the Company or a Restricted Subsidiary, the Fair Market Value of the property received by the Company or Restricted Subsidiary or the Company's Restricted Investment in such Subsidiary as of the date of such redesignation, merger, amalgamation, consolidation or transfer of properties or assets, to the extent such Investments reduced the Restricted

Payments capacity under this clause (c) and were not previously repaid or otherwise reduced; *plus*

(d) 100% of any dividends or distributions received in cash by the Company or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends or distributions were not otherwise included in the Consolidated Net Income of the Company for such period.

The preceding provisions will not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the Indenture;

(2) the making of any Restricted Payment in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of the Company) of, Equity Interests of the Company (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to the Company; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (3)(b) of the preceding paragraph;

(3) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any Guarantor that is contractually subordinated to the Notes or to any Note Guarantee with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness for the purpose of such repurchase, redemption, defeasance or other acquisition or retirement for value;

(4) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of the Company to the holders of its Equity Interests (other than the Company or any Restricted Subsidiary) on no more than a *pro rata* basis;

(5) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Company or any Restricted Subsidiary of the Company held by any of the Company's (or any of its Restricted Subsidiaries') current or former officers, directors, employees or consultants pursuant to any equity subscription agreement, stock option agreement, restricted stock grant, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed $20.0 million in any calendar year (with unused amounts in any calendar year being permitted to be carried over into succeeding calendar years) and *provided*, *further*, that such amount in any calendar year may be increased by an amount not to exceed (A) the cash proceeds from the sale of Equity Interests of the Company or a Restricted Subsidiary received by the Company or a Restricted Subsidiary during such calendar year, in each case to members of management, directors or consultants of the Company, any of its Restricted Subsidiaries or any of its direct or indirect parent companies, to the extent the cash proceeds from the sale of Equity Interests have not otherwise been applied to the making of Restricted Payments pursuant to clause (3)(b) of the preceding paragraph or clause (2) of this paragraph and (B) the cash proceeds of key man life insurance policies;

(6) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Company or any Restricted Subsidiary of the Company held by any of the Company's (or any of its Restricted Subsidiaries') current or former directors or employees in connection with the exercise or vesting of any equity compensation (including, without limitation, stock options, restricted stock and phantom stock) in order to satisfy the Company's or such Restricted Subsidiary's tax withholding obligation with respect to such exercise or vesting;

(7) repurchases of Subordinated Obligations at a purchase price not greater than (i) 101% of the principal amount of such Subordinated Obligations and accrued and unpaid interest thereon in the event of a Change of Control or (ii) 100% of the principal amount of such Subordinated Obligations and accrued and unpaid interest thereon in the event of an Asset Sale, in each case plus accrued interest, in connection with any change of control offer or asset sale offer required by the terms of such Indebtedness, but only if:

(a) in the case of a Change of Control, the Company has first complied with and fully satisfied its obligations under the provisions described under "*—Repurchase at the option of holders—Change of control*"; or

(b) in the case of an Asset Sale, the Company has complied with and fully satisfied its obligations in accordance with the covenant under the heading, "*—Repurchase at the option of holders—Asset sales*";

(8) the repurchase, redemption or other acquisition for value of Capital Stock of the Company representing fractional shares of such Capital Stock in connection with a merger, consolidation, amalgamation or other combination involving the Company or any other transaction permitted by the Indenture;

(9) the repurchase of Equity Interests deemed to occur upon the exercise of stock options or warrants to the extent such Equity Interests represent a portion of the exercise price of those stock options or warrants;

(10) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Company or any Restricted Subsidiary of the Company issued on or after the Issue Date in accordance with the Fixed Charge Coverage Ratio test described below under the caption "*—Incurrence of indebtedness and issuance of preferred stock*";

(11) payments of cash, dividends, distributions, advances or other Restricted Payments by the Company or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (x) the exercise of options or warrants or (y) the conversion or exchange of Capital Stock of any such Person;

(12) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, (a) advances or loans to any future, present or former officer, director, employee or consultant of the Company or a Restricted Subsidiary to pay for the purchase or other acquisition for value of Equity Interests of the Company (other than Disqualified Stock), or any obligation under a forward sale agreement, deferred purchase agreement or deferred payment arrangement pursuant to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or other agreement or arrangement; *provided* that the total aggregate amount of Restricted Payments made under this subclause (a) does not exceed \$1.0 million in any calendar year or (b) advances, grants or loans in relation to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or unit trust, whether made directly to any such plan or trust or to the trustees of any such plan or trust, to pay for the purchase or other acquisition for value of Equity Interests of the Company (other than Disqualified Stock); *provided* that the total aggregate amount of Restricted Payments made under this subclause (b) does not exceed \$50.0 million in any 12-month period;

(13) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the repurchase of Equity Interests of the Company to be held as treasury stock; *provided* that the total aggregate amount of Restricted Payments made under this clause (13) does not exceed \$150.0 million plus the cash proceeds from the sale of such Equity Interests of the Company from treasury stock since the Issue Date;

(14) so long as no Default has occurred and is continuing or would be caused thereby, the declaration or payment of dividends or distributions, or the making of any cash payments, advances, loans or expense reimbursements on the common stock or common equity interests of the Company or any direct or indirect parent company; *provided* that the aggregate amount of all such dividends or distributions under this clause (14) shall not exceed in any fiscal year the greater of (a) 6.0% per annum of the net cash proceeds received by the Company in any Public Equity Offering or contributed to the equity of the Company and (b) an amount equal to 5.0% of the Market Capitalization, *provided* that in the case of this clause (b), after giving *pro forma* effect to the payment of any such dividend or making of any such distribution, the Fixed Charge Coverage Ratio would not be less than 2.0 to 1.0; and *provided*, further, that in each case, if such Public Equity Offering was of Capital Stock of a parent company, the net proceeds of any such dividend are used to fund a corresponding dividend in equal or greater amount on the Capital Stock of such parent company;

(15) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, other Restricted Payments in an aggregate amount not to exceed the greater of (a) $150.0 million and (b) 3.5% of Consolidated Total Assets since the Issue Date; and

(16) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, Restricted Payments aggregating up to an amount equivalent to 50% of the net cash proceeds received by the Company or any of its Restricted Subsidiaries from all dispositions (including, without limitation, any farm-out or lease) of oil and gas properties subsequent to the Issue Date; *provided* that, after giving *pro forma* effect to any such Restricted Payment (and any related transactions), the Consolidated Leverage Ratio of the Company does not exceed 2.0 to 1.0.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment (or, in the case of a dividend, on the date of declaration) of the asset(s) or securities proposed to be transferred or issued by the Company or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The Fair Market Value of any cash Restricted Payment shall be its face amount. The Company, in its sole discretion, may classify any Investment or other Restricted Payment as being made in part under one of the provisions of this covenant (or, in the case of any Investment, the clauses of the definition of Permitted Investments) and in part under one or more other such provisions (or, as applicable, clauses). Unsecured Indebtedness shall not be deemed to be subordinate or junior to secured Indebtedness solely by virtue of its nature as unsecured Indebtedness.

Incurrence of indebtedness and issuance of preferred stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "**incur**") any Indebtedness (including Acquired Debt), and the Company will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided, however,* that the Company may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock and any Restricted Subsidiary of the Company may incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for the Company's most recently ended two full fiscal half-years for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or preferred stock is issued, as the case may be, would have been at least 2.25 to 1.0, determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such two half-year reference period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness or issuances of Disqualified Stock or preferred stock (collectively, "**Permitted Debt**"):

(1) the incurrence by the Company and any Restricted Subsidiary of additional Indebtedness under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) not to exceed the greatest of (x) $675.0 million, (y) an amount equal to the sum of $100.0 million *plus* any amounts under all Borrowing Base Facilities of the Company and its Restricted Subsidiaries and (z) 16% of Consolidated Total Assets determined as of the date of such incurrence, *plus* in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, accrued and unpaid interest, costs (including defeasance costs), premiums and expenses (including underwriting commissions paid as discounts) incurred in connection with such refinancing;

(2) the incurrence by the Company and its Restricted Subsidiaries of Indebtedness (other than Indebtedness incurred under clauses (1) and (3) of this paragraph) outstanding on the Issue Date which remains outstanding on the Issue Date after giving effect to the Transactions;

(3) the incurrence by the Company and its Restricted Subsidiaries of indebtedness under the MTN Program, not to exceed £295.0 million in aggregate principal amount at any time outstanding;

(4) the incurrence by the Company of Indebtedness represented by the Notes to be issued on the date of the Indenture and the incurrence by any Guarantor of a Note Guarantee at any time;

(5) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness:

(a) incurred for the purpose of financing all or any part of the purchase price, lease expense, charter expense, rental payments or cost of design, development, construction, transportation, installation, migration or improvement of any FPSO, rig or production facility used or useful in the Energy Business; or

(b) represented by Capital Lease Obligations, mortgage financings or purchase money obligations or other Indebtedness, in each case, incurred for the purpose of financing all or any part of the purchase price, lease expense, charter expense, rental payments or cost of design, development, construction, transportation, installation, migration, drydocking or improvement of property, plant or equipment or other assets used in the business of the Company or any of its Restricted Subsidiaries and any other capital expenses or operating expenses in relation thereto (including any reasonably related fees or expenses incurred in connection therewith), in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to extend, renew, refund, refinance, replace, exchange, defease or discharge any Indebtedness incurred pursuant to this clause (5)(b), not to exceed the greater of (x) $120 million and (y) 3.5% of Consolidated Total Assets at any time outstanding,

in each case, whether such Indebtedness is incurred for the charter of, leasing of or direct purchase of or the purchase of the Capital Stock of any Person owning such property, plant or equipment or other assets (including any Indebtedness deemed to be incurred in connection with such purchase) (it being understood that any such Indebtedness may be incurred after the acquisition or purchase or the design, development, construction, transportation, installation, migration, drydocking or the making of any improvement with respect to any such property, plant or equipment or other assets);

(6) the incurrence by the Company or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to extend, renew, refund, refinance, replace, exchange, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by the Indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5) or (15) of this paragraph or this clause (6);

(7) the incurrence by the Company or any of its Restricted Subsidiaries of intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries; *provided*, *however*, that:

(a) if the Company or any Guarantor is the obligor on such Indebtedness and the payee is not the Company or a Guarantor, such Indebtedness must be ((i) except in respect of the intercompany current liabilities incurred in the ordinary course of business in connection with the cash management operations of the Company and its Restricted Subsidiaries and (ii) only to the extent legally permitted) expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the Notes, in the case of the Company, or the Note Guarantee, in the case of a Guarantor; and

(b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Company or a Restricted Subsidiary of the Company and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either the Company or a Restricted Subsidiary of the Company will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (7);

(8) the issuance by any of the Company's Restricted Subsidiaries to the Company or to any of its Restricted Subsidiaries of shares of preferred stock; *provided, however,* that:

(a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than the Company or a Restricted Subsidiary of the Company; and

(b) any sale or other transfer of any such preferred stock to a Person that is not either the Company or a Restricted Subsidiary of the Company,

will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (8);

(9) the incurrence by the Company or any of its Restricted Subsidiaries of Hedging Obligations in the ordinary course of business, including in connection with any commodities marketing activities or any permitted Energy Business activities;

(10) the Guarantee by the Company or any Restricted Subsidiary of Indebtedness of the Company or a Restricted Subsidiary that was permitted to be incurred by another provision of this covenant; *provided* that if the Indebtedness being Guaranteed is subordinated to or *pari passu* with the Notes or a Note Guarantee, as applicable, then the Guarantee shall be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness Guaranteed;

(11) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within 30 Business Days;

(12) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness in respect of self-insurance obligations or captive insurance companies or consisting of the financing of insurance premiums in the ordinary course of business;

(13) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness arising from agreements of the Company or any of its Restricted Subsidiaries providing for indemnification, obligations in respect of earnouts or other adjustment of purchase price or, in each case, similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Capital Stock of a Subsidiary; *provided* that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the Fair Market Value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Company and its Restricted Subsidiaries in connection with such disposition;

(14) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness in respect of (A) letters of credit, bankers' acceptances, guarantees, bid, performance, appeal, surety and similar bonds, completion guarantees, judgment, advance payment, customs, VAT or similar instruments issued for the account of the Company and any of its Restricted Subsidiaries in the ordinary course of business, including Guarantees and obligations of the Company or any of its Restricted Subsidiaries with respect to letters of credit, bankers' acceptances, guarantees or similar instruments supporting trade payables or issued or relating to other liabilities or obligations incurred in the ordinary course of business (including, without limitation, in connection with leases, or self-insurance and workers compensation obligations) or (B) any customary cash management, cash pooling or netting or setting off arrangements with banks or other financial institutions;

(15) Indebtedness or preferred stock of a Person outstanding on the date on which such Person becomes a Restricted Subsidiary or is acquired by the Company or a Restricted Subsidiary or merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Company or any Restricted Subsidiary in accordance with the Indenture (including Indebtedness incurred (a) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by or was merged into the Company or a Restricted Subsidiary or (b) otherwise in connection with, or in contemplation of, such acquisition); *provided, however*, with respect to this clause (15) that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred, (x)(A) the Company would have been able to incur $1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving effect to the incurrence of such Indebtedness or issuance of such preferred stock pursuant to this clause (15) or (B) the Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such acquisition or other transaction or (y) in the case of Acquired Debt, such Indebtedness is discharged in full within six months of such Person becoming a Restricted Subsidiary or otherwise being merged, consolidated, amalgamated or combined with the Company or a Restricted Subsidiary;

(16) Guarantees by the Company or any of its Restricted Subsidiaries of any Management Advances;

(17) Guarantees by the Company or any Restricted Subsidiary granted to any trustee of any management equity plan or stock option plan or any other management or employee benefit or incentive plan or unit trust scheme approved by the Board of Directors of the Company, so long as the proceeds of the

Indebtedness so Guaranteed are used to purchase Equity Interests of the Company (other than Disqualified Stock); *provided* that the amount of any net cash proceeds from the sale of such Equity Interests of the Company will be excluded from clause (3)(b) of the first paragraph of the covenant described above under the caption "—*Certain covenants—Restricted payments*" and will not be considered to be net cash proceeds from an Equity Offering for purposes of the "*Optional redemption*" provisions of the Indenture;

(18) Guarantees by the Company or any of its Restricted Subsidiaries of pension fund obligations of the Company or any Restricted Subsidiary required by law or regulation;

(19) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness in connection with one or more standby letters of credit, Guarantees, performance bonds or other reimbursement obligations, in each case, issued in the ordinary course of business and not in connection with the borrowing of money or the obtaining of an advance or credit (other than advances or credit for goods and services in the ordinary course of business and on terms and conditions that are customary in the Energy Business, and other than the extension of credit represented by such letter of credit, Guarantee or performance bond itself);

(20) Indebtedness of the Company and any Guarantor in an aggregate principal amount that, when taken together with any Permitted Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness incurred pursuant to this clause (20) and then outstanding, will not exceed 100% of the net cash proceeds received by the Company from the issuance or sale (other than to a Restricted Subsidiary) of its Capital Stock of the Company, in each case, subsequent to the Issue Date *provided*, *however*, that (i) any such net cash proceeds that are so received or contributed shall be excluded for the purposes of making Restricted Payments under the first paragraph or clauses (2) or (5) of the second paragraph of the covenant described above under "—*Restricted Payments*" to the extent the Company and its Restricted Subsidiaries can incur Indebtedness in reliance thereon and (ii) any net cash proceeds that are so received or contributed shall be excluded for the purposes of incurring Indebtedness pursuant to this clause (20) to the extent the Company or any of its Restricted Subsidiaries makes a Restricted Payment under the first paragraph or clauses (2) and (5) of the second paragraph of the covenant described under "—*Restricted Payments*" in reliance thereon;

(21) the incurrence by the Company or any Restricted Subsidiary of Indebtedness through the provision of bonds, Guarantees, letters of credit or similar instruments required by any national or international maritime commission or authority or other governmental or regulatory agencies, including, without limitation, customs authorities; in each case, for vessels owned or chartered by, and in the ordinary course of business of, the Company or any of its Restricted Subsidiaries at any time outstanding not to exceed the amount required by such governmental or regulatory authority;

(22) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness in the form of customer deposits and advance payments received in the ordinary course of business from customers for purchases in the ordinary course of business; and

(23) the incurrence by the Company or any of its Restricted Subsidiaries of additional Indebtedness or the issuance of Disqualified Stock by the Company or preferred stock by any Restricted Subsidiary in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to extend, renew, refund, replace, exchange, defease or discharge any Indebtedness incurred pursuant to this clause (22), not to exceed the greater of (x) \$115 million and (y) 3.25% of Consolidated Total Assets determined as of the date of such incurrence or issuance.

For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness incurred pursuant to and in compliance with this covenant:

(1) in the event that an item or portion of an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (22) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Company, in its sole discretion, will be permitted to classify such item or portion of an item of Indebtedness on the date of its incurrence and only be required to include the amount and type of such Indebtedness in one of such clauses and from

time to time to reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant;

(2) Guarantees of, or obligations in respect of letters of credit relating to, Indebtedness which is otherwise included in the determination of a particular amount of Indebtedness shall not be included;

(3) subject to the provisions set forth under "*Financial Calculations*," for the purposes of determining "Consolidated Total Assets" in relation to the second paragraph of this covenant, Consolidated Total Assets shall be measured (in the case of revolving facilities or Borrowing Base Facilities) at the option of the Company on the most recent date on which the commitments are obtained or the date on which new Indebtedness is incurred (in the case of other term facilities) on the date on which the new indebtedness is incurred, in each case by reference to the balance sheet of the most recent month end for which internal consolidated financial statements of the Company are available; and

(4) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness.

The amount of any Indebtedness outstanding as of any date will be:

(1) in the case of any Indebtedness issued with original issue discount, the amount of the liability in respect thereof determined in accordance with IFRS;

(2) in respect of Hedging Obligations, either (a) zero if such Hedging Obligation is incurred pursuant to clause (9) of the second paragraph of this covenant or (b) the notional amount of such Hedging Obligation if not incurred pursuant to such clause;

(3) the principal amount of the Indebtedness, in the case of any other Indebtedness; and

(4) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

    (i) the Fair Market Value of such assets at the date of determination; and

    (ii) the amount of the Indebtedness of the other Person.

Accrual of interest, accrual of dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness, the reclassification of preferred stock as Indebtedness due to a change in accounting principles and the payment of dividends in the form of additional shares of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this covenant. The amount of any Indebtedness outstanding as of any date shall be the principal amount or liquidation preference thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary of the Company as of such date (and, if such Indebtedness is not permitted to be incurred as of such date under this "*—Incurrence of indebtedness and issuance of preferred stock*" covenant, the Company shall be in Default of this covenant).

For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a different currency shall be utilized, calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred in the case of term Indebtedness, or, at the option of the Company, first committed, in the case of Indebtedness incurred under a revolving credit facility; *provided, however*, that (i) if such Indebtedness denominated in non-U.S. dollar currency is subject to a Currency Exchange Protection Agreement with respect to U.S. dollars, the amount of such Indebtedness expressed in U.S. dollars will be calculated so as to take account of the effects of such Currency Exchange Protection Agreement; and (ii) the U.S. dollar-equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date. The principal amount of any refinancing Indebtedness incurred in the same currency as the Indebtedness being refinanced will be the

U.S. dollar-equivalent of the Indebtedness refinanced determined on the date such Indebtedness was originally incurred, except that to the extent that:

(1) such U.S. dollar-equivalent was determined based on a Currency Exchange Protection Agreement, in which case the refinancing Indebtedness will be determined in accordance with the preceding sentence; and

(2) the principal amount of the refinancing Indebtedness exceeds the principal amount of the Indebtedness being refinanced, in which case the U.S. dollar-equivalent of such excess will be determined on the date such refinancing Indebtedness is being incurred.

The principal amount of any Indebtedness incurred to refinance other Indebtedness, if incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Permitted Refinancing Indebtedness is denominated that is in effect on the date of such refinancing. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind securing Indebtedness upon any of its property or assets (whether now owned or hereafter acquired), except (x) Permitted Liens or (y) Liens on property or assets that are not Permitted Liens (the "**Initial Lien**") if payment due under the Notes or Note Guarantees, as applicable, are secured by a Lien on such property or assets on at least an equal and ratable basis with the Indebtedness so secured.

Any Lien created for the benefit of holders pursuant to this covenant will provide by its terms that such Lien will be automatically and unconditionally released and discharged upon the release and discharge of the Initial Lien other than as a consequence of an enforcement action with respect to the assets subject to such Lien.

Dividend and other payment restrictions affecting subsidiaries

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to the Company or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to the Company or any of its Restricted Subsidiaries;

(2) make loans or advances to the Company or any of its Restricted Subsidiaries; or

(3) sell, lease or transfer any of its properties or assets to the Company or any of its Restricted Subsidiaries,

provided that (x) the priority of any preferred stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill period to) loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness incurred by the Company or any Restricted Subsidiary, shall not be deemed to constitute such an encumbrance or restriction.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements governing the Company's Indebtedness and Credit Facilities as in effect on the Issue Date and any amendments, restatements, modifications, renewals, supplements, increases, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, increases, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date or will not adversely affect in any

material respect the Company's ability to make principal or interest payments on the Notes as they become due (in each case, as determined in good faith by a responsible accounting or financial officer of the Company);

(2) the Indenture, the Notes (including Additional Notes), the Note Guarantees and Guarantee Subordination Agreement and any Additional Guarantee Subordination Agreement;

(3) applicable law, rule, regulation or order or the terms of any license, authorization, approval, concession or permit or similar restriction;

(4) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Company or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred;

(5) customary non-assignment and similar provisions in contracts, leases and licenses (including, without limitation, licenses of intellectual property) entered into in the ordinary course of business;

(6) purchase money obligations for property (including Capital Stock) acquired in the ordinary course of business, Capital Lease Obligations and mortgage financings that impose restrictions on the property purchased or leased for the financing of all or any part of the purchase price, lease expense, charter expense, rental payments or cost of design, development, construction, transportation, installation, migration, drydocking or improvement of any FPSO, rig or production facility used or useful in the Energy Business;

(7) any agreement for the sale or other disposition of assets, including without limitation an agreement for the sale or other disposition of the Capital Stock or assets of a Restricted Subsidiary, that restricts distributions by the applicable Restricted Subsidiary pending the sale or other disposition;

(8) Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced or will not adversely affect in any material respect the Company's ability to make principal or interest payments on the Notes as they become due (in each case, as determined in good faith by a responsible accounting or financial officer of the Company);

(9) Liens permitted to be incurred under the provisions of the covenant described above under the caption "—*Liens*" that limit the right of the debtor to dispose of the assets subject to such Liens;

(10) provisions limiting the disposition or distribution of assets or property in, or transfer of Capital Stock of, joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements (including agreements entered into in connection with a Restricted Investment), which limitations are applicable only to the assets, property or Capital Stock that are the subject of such agreements;

(11) agreements governing other Indebtedness of the Company or any of its Restricted Subsidiaries permitted to be incurred in accordance with the covenant described under the caption "—*Incurrence of indebtedness and issuance of preferred stock*," and any amendments, restatements, modifications, renewals, supplements, increases, refundings, replacements or refinancings of those agreements; *provided* that any such encumbrance or restriction contained in such Indebtedness are not materially more restrictive taken as a whole than customary in comparable financings in such jurisdictions as such Indebtedness is being incurred or will not adversely affect in any material respect the Company's ability to make principal or interest payments on the Notes as they become due (in each case, as determined in good faith by a responsible accounting or financial officer of the Company);

(12) supermajority voting requirements existing under corporate charters, bylaws, stockholders agreements, joint venture agreements and similar documents and agreements;

(13) customary provisions restricting subletting or assignment of any lease governing a leasehold interest;

(14) encumbrances or restrictions contained in Hedging Obligations permitted from time to time under the Indenture;

(15) restrictions on cash or other deposits or net worth imposed by customers or suppliers or required by insurance, surety or bonding companies, in each case under contracts entered into in the ordinary course of business;

(16) encumbrances or restrictions contained in agreements for the financing of all or any part of the purchase price, lease expense, charter expense, rental payments or cost of design, development, construction, transportation, installation, migration, drydocking or improvement of any FPSO, rig or production facility used or useful in the Energy Business, provided that such encumbrance or restriction contained in such agreements will not adversely affect in any material respect the Company's ability to make principal or interest payments on the Notes as they become due (in each case, as determined in good faith by a responsible accounting or financial officer of the Company); and

(17) any encumbrance or restriction existing under any agreement that extends, renews, refinances or replaces the agreements containing the encumbrances or restrictions in the foregoing clauses (1) through (15), or in this clause (16); *provided* that the terms and conditions of any such encumbrances or restrictions are not materially more restrictive taken as a whole with respect to such dividend and other payment restrictions than those under or pursuant to the agreement so extended, renewed, refinanced or replaced or will not adversely affect in any material respect the Company's ability to make principal or interest payments on the Notes as they become due (in each case, as determined in good faith by a responsible accounting or financial officer of the Company).

Merger, consolidation or sale of assets

The Company

The Company will not, directly or indirectly (i) consolidate, amalgamate or merge with or into another Person (whether or not the Company is the surviving corporation) or (ii) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) the Company is the surviving corporation; or (b) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyance or other disposition has been made is an entity organized or existing under the laws of any member state of the European Union as in effect on the Issue Date, the United Kingdom, Jersey, Switzerland, Norway, Canada, Australia, Japan, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of the Company under the Notes and the Indenture pursuant to a supplemental indenture in a form reasonably acceptable to the Trustee;

(3) immediately after such transaction or transactions, no Default or Event of Default exists;

(4) the Company or the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company), or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made would, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable two half-year reference period (i) be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "*—Incurrence of indebtedness and issuance of preferred stock*" or (ii) have a Fixed Charge Coverage Ratio not less than it was immediately prior to giving effect to such transaction;

(5) each Guarantor (unless it is the other party to the transactions above, in which case clause (2) shall apply) shall have by supplemental indenture confirmed that its Guarantee shall apply to such Person's obligations in respect of the Indenture and the Notes and shall continue to be in effect; and

(6) the Company shall have delivered to the Trustee an Officers' Certificate and an opinion of counsel, each stating that such consolidation, amalgamation, merger or disposition and such supplemental indenture (if any) comply with this covenant; *provided* that in giving an opinion of counsel, counsel may rely on an Officers' Certificate as to any matters of fact.

The surviving entity will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture, but, in the case of a lease of all or substantially all of its properties or assets, the Company will not be released from the obligation to pay the principal of and interest and premium, if any, on the Notes.

The Guarantors

A Guarantor (other than any Guarantor whose Note Guarantee is to be released in accordance with the terms of the Note Guarantee and the Indenture as described under "*—Note Guarantees release*") may not sell or otherwise dispose of all or substantially all of its properties or assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person), another Person, other than the Company or another Guarantor, unless:

(1) immediately after giving effect to that transaction, no Default or Event of Default exists; and

(2) either:

  (a) such Guarantor is the surviving entity;

  (b) the Person acquiring the property in any such sale or other disposition or the Person formed by or surviving any such consolidation, amalgamation or merger (if other than the Company or another Guarantor) unconditionally assumes, pursuant to a supplemental indenture substantially in the form specified in the Indenture, all the obligations of such Guarantor under such Indenture, its Note Guarantee, the Guarantee Subordination Agreement and any Additional Guarantee Subordination Agreement on the terms set forth therein; or

  (c) the Net Proceeds of such sale or other disposition are applied in accordance with the provisions of the Indenture described under the caption "*—Repurchase at the option of holders—Asset sales*."

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the properties or assets of a Person.

Clauses (3) and (4) of the first paragraph of this covenant will not apply to any merger, consolidation or amalgamation of the Company or any Restricted Subsidiary with or into an Affiliate solely for the purpose of reincorporating the Company or such Restricted Subsidiary in another jurisdiction. Nothing in the Indenture will prevent and this covenant will not apply to (i) any Restricted Subsidiary consolidating or amalgamating with, merging or liquidating into or disposing of all or part of its properties or assets to the Company or any Guarantor, (ii) the Company or such Guarantor consolidating or amalgamating with, or merging or liquidating into a Restricted Subsidiary for the purpose of reincorporating the Company or such Guarantor in another jurisdiction, (iii) any Restricted Subsidiary consolidating or amalgamating with, merging with or into or disposing of all or part of its properties or assets to another Restricted Subsidiary and (iv) any liquidation, winding up, dissolution or corporate reorganization of any Restricted Subsidiary of the Company on a solvent basis.

Transactions with affiliates

The Company will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Company (each, an "Affiliate Transaction") involving aggregate payments or consideration in excess of $20.0 million, unless:

(1) the Affiliate Transaction is on terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or such Restricted Subsidiary with an unrelated Person (as determined in good faith by a responsible accounting or financial officer of the Company); and

(2) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $50.0 million, the Company delivers to the Trustee a resolution of the Board of Directors of the Company set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of the Company.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) transactions between or among the Company and/or its Restricted Subsidiaries;

(2) Restricted Payments not prohibited by the provisions of the Indenture described above under the caption "—*Restricted payments*" and Permitted Investments;

(3) transactions with a Person (other than an Unrestricted Subsidiary of the Company) that is an Affiliate of the Company solely because the Company owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) any customary directors' fees, indemnification and similar arrangements (including the payment of directors' and officers' insurance premiums), consultant agreements, employment agreements, collective bargaining agreements, severance agreements, any other compensation or employee benefit plans or arrangements (including stock option, stock appreciation, stock incentive or stock ownership or similar plans) or legal fees (as determined in good faith by a majority of the disinterested members of the Board of Directors of the Company or, so long as the Company remains listed on the London Stock Exchange, otherwise in compliance with the Company's code of corporate governance) and payments, awards, grants or issuances of securities pursuant thereto;

(5) any issuance of Equity Interests (other than Disqualified Stock) of the Company to Affiliates of the Company;

(6) transactions with a joint venture or similar entity which would constitute an Affiliate Transaction solely because the Company owns, directly or through a Restricted Subsidiary, an Equity Interest in, can designate one or more members of the board of, or otherwise controls, such joint venture or similar entity;

(7) transactions pursuant to, or contemplated by any agreement or arrangement in effect on the Issue Date and as described in this Offering Memorandum under the caption "*Certain relationships and related party transactions*," and transactions pursuant to any amendment, modification, supplement or extension thereto; *provided* that any such amendment, modification, supplement or extension to the terms thereof, taken as a whole, is not materially more disadvantageous to the holders of the Notes than the original agreement or arrangement as in effect on the Issue Date;

(8) (i) the Transactions; (ii) the Offering; (iii) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, providers of employees or other labor, oil field service companies, construction companies, engineering companies, other energy exploration and development companies or other suppliers or service providers which are in the ordinary course of business and otherwise in compliance with the terms of the Indenture, and which are fair to the Company or the Restricted Subsidiaries, in the reasonable determination of the senior management of the Company, or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated Person; and (iv) to the extent constituting Affiliate Transactions, transactions with any governmental agency or entity in connection with the Energy Business;

(9) payments or other transactions pursuant to any tax sharing agreement or arrangement among the Company or any of its Restricted Subsidiaries and any other Person with which the Company or any of its Restricted Subsidiaries files or filed a consolidated tax return or with which the Company or any of its Restricted Subsidiaries is or was part of a consolidated group for tax purposes or any tax advantageous group contribution made pursuant to applicable legislation; *provided, however*, that such payments, and the value of such transactions, shall not exceed the amount of tax that the Company or such Restricted Subsidiaries would owe if such Person was not a member of such consolidated or tax advantageous group;

(10) transactions between the Company or any Restricted Subsidiary and any Person, a director of which is also a director of the Company or any direct or indirect parent of the Company and such director is the sole cause for such Person to be deemed an Affiliate of the Company or any Restricted Subsidiary; *provided, however,* that such director shall abstain from voting as a director of the Company or such direct or indirect parent company, as the case may be, on any matter involving such other Person;

(11) any transactions for which the Company or a Restricted Subsidiary delivers a written letter or opinion to the Trustee from an Independent Financial Advisor stating that such transaction is (a) fair to the Company or such Restricted Subsidiary from a financial point of view or (b) on terms not less favorable than might have been obtained in a comparable transaction at such time on an arm's length basis from a Person who is not an Affiliate;

(12) any participation in a public tender or exchange offer for securities or debt instruments issued by the Company or any of its Subsidiaries that are conducted on arm's length terms and provide for the same price or exchange ratio, as the case may be, to all holders accepting such tender or exchange offer;

(13) the contribution of net cash proceeds received, the Fair Market Value of marketable securities received and the Fair Market Value of other property or assets (excluding oil and gas properties or interests therein) received by the Company as a contribution to its common capital or from the issue or sale of Equity Interests of the Company (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of the Company that have been converted into or exchanged for such Equity Interests; and

(14) the transfer, pledge or other disposition of all or any portion of Equity Interests of Unrestricted Subsidiaries.

Limitation on lines of business

The Company will not, and will not permit any Restricted Subsidiary to, engage in any business other than the Energy Business, except to the extent as would not be material to the Company and its Restricted Subsidiaries taken as a whole.

Limitation on guarantees of indebtedness by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary that is not a Guarantor, directly or indirectly, to Guarantee, assume or in any other manner become liable for the payment of any Public Indebtedness of the Company (other than the Notes) or a Guarantor (other than a Guarantee of the Notes), unless such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for a Guarantee of payment of the Notes by such Restricted Subsidiary which Note Guarantee will be senior in right of payment to or *pari passu* in right of payment with such Restricted Subsidiary's Guarantee of such other Indebtedness unless such other Indebtedness is Senior Debt, in which case the Note Guarantee may be subordinated in right of payment to the Senior Debt of such additional Guarantor.

The foregoing paragraph will not be applicable to any Guarantees of any Restricted Subsidiary:

(1) existing on the date of the Indenture;

(2) that existed at the time such Person became a Restricted Subsidiary if the Guarantee was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary;

(3) arising due to the granting of a Permitted Lien; or

(4) given to a bank or trust company having combined capital and surplus and undivided profits of not less than $250.0 million, whose debt has a rating, at the time such Guarantee was given, of at least "A" or the equivalent thereof by S&P and at least "A2" or the equivalent thereof by Moody's, in connection with the operation of cash management programs established for the Company's benefit or that of any Restricted Subsidiary.

In addition, notwithstanding anything to the contrary herein:

(1) no Guarantee shall be required if such Guarantee could reasonably be expected to give rise to or result in (A) personal liability for the officers, directors or shareholders of such Restricted Subsidiary, (B) any violation of applicable law that cannot be avoided or otherwise prevented through measures reasonably available to the Company or such Restricted Subsidiary or (C) any significant cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out of pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to clause (B) undertaken in connection with, such Guarantee, which cannot be avoided through measures reasonably available to the Company or the Restricted Subsidiary; and

(2) each such Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Future Guarantees granted pursuant to this provision will be released as set forth under "—*Note Guarantees release*." A Guarantee of a future Guarantor will be deemed to provide by its terms that it shall be automatically and unconditionally released and discharged if at the date of such release either (i) there is no Indebtedness of such Guarantor outstanding which was incurred after the Issue Date and which could not have been incurred in compliance with the Indenture if such Guarantor had not been designated as a Guarantor, or (ii) there is no Indebtedness of such Guarantor outstanding which was incurred after the Issue Date and which could not have been incurred in compliance with the Indenture as at the date of such release if such Guarantor were not designated as a Guarantor as at that date. The Trustee shall take all necessary actions, including the granting of releases or waivers under the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement, to effectuate any release of a Note Guarantee in accordance with these provisions, subject to customary protections and indemnifications.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of the Company may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Company and its Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be either (1) a Restricted Investment made as of the time of the designation that will reduce the amount available for Restricted Payments under the covenant described above under the caption "—*Restricted payments*" or (2) a Permitted Investment under one or more clauses of the definition of Permitted Investments, as determined in good faith by a responsible accounting or financial officer of the Company. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

Any designation of a Subsidiary of the Company as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a copy of a resolution of the Board of Directors of the Company giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "—*Restricted payments*." If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Company as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "—*Incurrence of indebtedness and issuance of preferred stock*," the Company will be in default of such covenant.

The Board of Directors of the Company may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary of the Company; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of the Company of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "—*Incurrence of indebtedness and issuance of preferred stock*," calculated on a *pro forma* basis as if such designation had occurred at the beginning of the two half-year reference period; and (2) no Default or Event of Default would be in existence following such designation.

Reports

(1) The Company will make available, upon request, to any holder of Notes or prospective purchaser of Notes in the United States, in connection with any sale thereof, the information specified in Rule 144A(d)(4) under the U.S. Securities Act, unless the Company is subject to Section 13 or 15(d) of the U.S. Exchange Act at or prior to the time of such request.

(2) So long as any Notes are outstanding, the Company shall furnish to the Trustee (which shall distribute the same to a holder of Notes upon such holder's written request):

(i) within 120 days after the end of each of the Company's fiscal years beginning with the first fiscal year end after the Issue Date, annual reports containing the following information with respect to the Company with a level of detail that is substantially comparable and similar in scope to this Offering Memorandum: (a) audited consolidated balance sheet of the Company as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Company for the two most recent fiscal years (and comparative information for the end of the prior fiscal year), including complete notes to such financial statements and the report of the independent auditors on the financial statements; (b) *pro forma* income statement and balance sheet information, together with any explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates (other than the Transactions), unless the *pro forma* information has been previously provided; *provided* that such *pro forma* financial information will be provided only to the extent required to be disclosed by the U.K. Listing Authority and London Stock Exchange or, in the event the Company is no longer listed on the London Stock Exchange, to the extent available without unreasonable expense; (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations including a discussion of financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies; (d) a description of the business, all material affiliate transactions, Indebtedness and material financing arrangements and all material debt instruments; and (e) material risk factors and material recent developments; *provided that* (for so long as the U.K. Listing Authority and London Stock Exchange require annual reports and the Company is subject to such requirements) any item of disclosure that complies in all material respects with the requirements of the U.K. Listing Authority and London Stock Exchange for annual reports with respect to such item will be deemed to satisfy the Company's obligations under this clause (i) with respect to such item; *provided further*, that the information described in clauses (d) and (e) may be provided in the footnotes to the audited consolidated financial statements;

(ii) within 90 days after the end of the Company's first fiscal half-year in each fiscal year beginning with the half-year ending after the Issue Date, semi-annual reports containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such six-month period and unaudited condensed statements of income and cash flow for the year-to-date period ending on the unaudited condensed balance sheet date, and the comparable prior year period for the Company, together with condensed note disclosure; (b) *pro forma* income statement and balance sheet information of the Company, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the period as to which such report relates (other than the Transactions); *provided* that such *pro forma* financial information will be provided only to the extent required to be disclosed by the U.K. Listing Authority and London Stock Exchange or, in the event the Company is no longer listed on the London Stock Exchange, to the extent available without unreasonable expense; (c) an operating and financial review of the unaudited financial statements including a discussion of the consolidated financial condition and results of operations of the Company and any material change between the current half-year period and the corresponding period of the prior year; and (d) material recent developments; *provided that* (for so long as the U.K. Listing Authority and London Stock Exchange require interim reports and the Company is subject to such requirements) any item of disclosure that complies in all material respects with the requirements of the U.K. Listing Authority and London Stock Exchange for interim reports with respect to such item will be deemed to satisfy the Company's obligations under this clause (ii) with respect to such item; *provided further*, that the information described in clause (d) may be provided in the footnotes to the unaudited financial statements; and

(iii) promptly after the occurrence of any material acquisition, disposition or restructuring of the Company and its Restricted Subsidiaries, taken as a whole, or any senior executive officer changes at the Company or changes in auditors of the Company or other material event that the Company announces publicly, a report containing a description of such event (but only to the extent that such acquisition, disposition, restructuring, change or event has been required to be publicly announced or disclosed by the U.K. Listing Authority and London Stock Exchange for so long as the Company is subject to such requirements);

provided, however, that any reports set out in this paragraph delivered to the Trustee via e-mail or other electronic means shall be deemed to have been "furnished" to the Trustee in accordance with the terms of this paragraph.

All financial statements, other than any *pro forma* financial information provided pursuant to clauses (i) and (ii) of the second paragraph of this covenant, shall be prepared in accordance with IFRS on a consistent basis for the periods presented; provided, however, that the reports set forth in clauses (i) and (ii) above may, in the event of a change to IFRS, present earlier periods on a basis applied to such periods. Except as provided for above, no report need include separate financial statements for the Company or Subsidiaries of the Company or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Offering Memorandum. In addition, the reports set forth above will not be required to contain any reconciliation to US GAAP.

If the Company has designated any of its Subsidiaries as Unrestricted Subsidiaries and such Subsidiaries are Significant Subsidiaries, then the semi-annual and annual financial information required pursuant to clauses (i) and (ii) of the second paragraph of this covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company.

The Company will also make available copies of all reports required by clauses (i)-(iii) of the second paragraph of this covenant either (i) on the Company's website or (ii) publicly available through substantially comparable means (as determined by an Officer of the Company in good faith) (it being understood that, without limitation, making such reports available on Bloomberg or another private electronic information service will constitute substantially comparable public availability). In addition, in the case of furnishing the information pursuant to clauses (i) and (ii) of the second paragraph of this covenant, the Company will promptly thereafter hold a conference call or provide live streaming access to a presentation in which holders of the Notes are given an opportunity to participate hosted by an Officer of the Company to discuss the operations of the Company and its Subsidiaries in respect of the relevant period. The Company will also make available copies of all reports required by clauses (i) and (ii) of the second paragraph of this covenant, if and so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, at the specified office of the Principal Paying Agent in New York.

Notwithstanding the foregoing, the Company will be deemed to have provided such information to the Trustee, the holders of the Notes and prospective holders of the Notes if such information referenced in clauses (1) and (2) has been posted to the Company's website; provided that such information is not password protected and remains posted on the Company's website until the earlier of (i) the full redemption of the Notes and (ii) final maturity of the Notes.

Delivery of information, documents and reports to the Trustee is for informational purposes only. The Trustee's receipt of such shall not constitute actual or constructive notice of any information contained therein, including the Company's compliance with any of its covenants under the Indenture or documents related therein.

Suspension of covenants when Notes rated investment grade

If on any date following the Issue Date:

(1) the Notes have achieved Investment Grade Status; and

(2) no Default or Event of Default shall have occurred and be continuing on such date,

then, beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (such period, the "**Suspension Period**"), the covenants specifically listed under the following captions in this Offering Memorandum will no longer be applicable to the Notes and any related default provisions of the Indenture will cease to be effective and will not be applicable to the Company and its Restricted Subsidiaries:

(1) "*—Repurchase at the option of holders—Asset sales*";

(2) "*—Certain covenants—Restricted payments*";

(3) "*—Certain covenants—Incurrence of indebtedness and issuance of preferred stock*";

(4) "*—Certain covenants—Dividend and other payment restrictions affecting subsidiaries*";

(5) "*—Certain covenants—Designation of restricted and unrestricted subsidiaries*";

(6) "*—Certain covenants—Transactions with affiliates*";

(7) "*—Certain covenants—Limitation on guarantees of indebtedness by restricted subsidiaries*";

(8) clause (4) of the first paragraph of the covenant described under "*—Certain covenants—Merger, consolidation or sale of assets*"; and

(9) "*—Certain covenants—Limitation on lines of business*."

Such covenants will not, however, be of any effect with regard to the actions of the Company and the Restricted Subsidiaries properly taken during the continuance of the Suspension Period; *provided* that (1) with respect to the Restricted Payments made after any such reinstatement (a "**Reversion Date**"), the amount of Restricted Payments will be calculated as though the covenant described under the caption "*—Restricted payments*" had been in effect prior to, but not during, the Suspension Period and (2) all Indebtedness incurred, or Disqualified Stock or preferred stock issued, during the Suspension Period will be classified to have been incurred or issued pursuant to clause (2) of the second paragraph of the caption "*—Incurrence of indebtedness and issuance of preferred stock*." Upon the occurrence of a Suspension Period, the amount of Excess Proceeds shall be reset at zero.

The Company and any Subsidiary will be permitted, without causing a Default or Event of Default or breach of any kind under the Indenture, to honor, comply with or otherwise perform any contractual commitments or obligations entered into during a Suspension Period following a Reversion Date and to consummate the transactions contemplated thereby; provided, however, that (a) the Company and its Subsidiaries did not incur or otherwise enter into such contractual commitments or obligations in contemplation of the Reversion Date and (b) the Company reasonably believed that such incurrence or actions would not cause or result in a Reversion Date. For purposes of clauses (a) and (b) in the preceding sentence, anticipation and reasonable belief may be determined by the Company and shall be conclusively evidenced by a board resolution to such effect adopted in good faith by the Board of Directors of the Company. In reaching its determination, the Board of Directors may, but need not, consult with the Rating Agencies.

The Company shall notify the Trustee and the holders that the two conditions set forth in the first paragraph under this heading have been satisfied, *provided* that such notification shall not be a condition for the suspension of the covenants set forth above to be effective. The Trustee shall not be obligated to notify holders that the two conditions set forth in the first paragraph under this heading have been satisfied.

There can be no assurance that the Notes will ever achieve or maintain an Investment Grade Status.

Maintenance of listing

The Company will use its commercially reasonable efforts to maintain the listing of the Notes on the Euro MTF Market for so long as such Notes are outstanding; *provided* that if the Company is unable to obtain admission to listing of the Notes on the Luxembourg Stock Exchange or if at any time the Company determines that it will not so list or maintain such listing, it will use its commercially reasonable efforts to obtain and maintain a listing of such Notes on another "recognized stock exchange" (as defined under section 1005 of the UK Income Tax Act 2007) in which case, references in this covenant to the Exchange will be deemed to refer to such other "recognized stock exchange".

Events of default and remedies

Each of the following is an "Event of Default":

(1) default for 30 days in the payment when due of interest or Additional Amounts, if any, with respect to the Notes (whether or not prohibited by the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement);

(2) default in the payment when due (at final maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the Notes (whether or not prohibited by the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement);

(3) failure by the Company or any Guarantor to comply with the provisions described under the caption "—*Certain covenants—Merger, consolidation or sale of assets*";

(4) failure by the Company for 30 days after written notice to the Company by the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding to comply with any of the provisions described under the caption "—*Repurchase at the option of holders—Change of control*" above;

(5) failure by the Company or relevant Guarantor for 60 days after written notice to the Company by the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding to comply with any of the other agreements in the Indenture (other than a default in performance, or breach, of a covenant or agreement which is specifically dealt with in clauses (1), (2), (3) or (4)), or the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement;

(6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by the Company or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created, after the Issue Date, if that default:

    (a) is caused by a failure to pay principal of such Indebtedness at final maturity thereof after giving effect to any applicable grace periods provided in such Indebtedness and such failure to make any payment has not been waived or the maturity of such Indebtedness has not been extended (a "**Payment Default**"); or

    (b) results in the acceleration of such Indebtedness prior to its express maturity,

    and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$100.0 million or more;

(7) failure by the Company or any Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of \$100.0 million (net of any amount with respect to which a reputable and solvent insurance company has acknowledged liability in writing), which judgments are not paid, discharged, stayed or fully bonded for a period of 60 days (or, if later, the date when payment is due pursuant to such judgment);

(8) except as permitted by the Indenture (including with respect to any limitations), any Note Guarantee of a Significant Subsidiary is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Guarantor that is a Significant Subsidiary or any Person acting on behalf of any such Guarantor that is a Significant Subsidiary, denies or disaffirms its obligations under its Note Guarantee; and

(9) certain events of bankruptcy or insolvency (excluding (i) Chapter 15 of the US Bankruptcy Code of 1978 in each case of any proceedings in respect of the recognition of foreign proceedings and (ii) schemes of arrangement, restructuring plans and similar procedures in the United Kingdom) described in the Indenture with respect to the Company or any Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, except as a result of, or in connection with, any liquidation, winding up, dissolution or corporate reorganization on a solvent basis.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to the Company, all then outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes may declare all of the then outstanding Notes to be due and payable immediately by notice in writing to the Company and, in case of a notice by holders, also to the Trustee specifying the respective Event of Default and that it is a notice of acceleration.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from holders of the Notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or Additional Amounts or premium, if any.

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any holders of Notes unless such holders have offered to the Trustee and, if requested, the Trustee has received indemnity and/or security satisfactory to it against any loss, cost liability or expense. Except (subject to the provisions described under "*—Amendment, supplement and waiver*") to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no holder of a Note may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such holder has previously given the Trustee notice that an Event of Default is continuing;

(2) holders of at least 25% in aggregate principal amount of the then outstanding Notes have requested the Trustee to pursue the remedy;

(3) such holders have offered the Trustee and, if requested, the Trustee has received security and/or indemnity satisfactory to it against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) holders of a majority in aggregate principal amount of the then outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

The holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may, on behalf of the holders of all of the Notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the Indenture, if the rescission would not conflict with any judgment or decree, except a continuing Default or Event of Default in the payment of interest or Additional Amounts or premium on, or the principal of, the Notes held by a non-consenting holder (which may be waived with the consent of holders of at least 90% of the aggregate principal amount of the then outstanding Notes).

The Indenture will provide that (i) if a Default occurs for a failure to deliver a report or required certificate in connection with another default (an "**Initial Default**") then at the time such Initial Default is cured, such Default for failure to deliver a report or required certificate in connection with the Initial Default will also be cured without any further action and (ii) any Default or Event of Default for failure to comply with the time periods prescribed in the covenant entitled "*—Certain Covenants—Reports*" or otherwise to deliver any notice or certificate pursuant to any other provision of the Indenture shall be deemed to be cured upon delivery of (prior to acceleration in respect to the relevant breach) any such report, notice or certificate, even though such delivery is not within the prescribed period specified in the Indenture.

The Company is required to deliver to the Trustee annually a statement regarding compliance with the Indenture.

The Trustee may assume without inquiry, in the absence of written notice, that the Company is duly complying with its obligations contained in the Indenture required to be observed and performed by it, and that no Default or Event of Default or other event that would require repayment of the Notes has occurred.

Additional guarantee subordination agreements

The Indenture will provide that, subject to the covenants contained therein, at the request of the Company, at or prior to any time that the Company or any of the Company's Restricted Subsidiaries Guarantees or otherwise incurs any Senior Debt that is permitted to be incurred pursuant to the covenants described under the heading "*—Certain covenants—Incurrence of indebtedness and issuance of preferred stock*" and "*—Certain covenants—Liens*," the Company, any relevant Guarantor and the Trustee may (without the consent of the holders of the Notes), either amend and/or restate the Guarantee Subordination Agreement or enter into with the creditors and/or representatives of creditors with respect to such Senior Debt a subordination agreement or deed (each, an "**Additional Guarantee Subordination Agreement**"), in either such case on substantially similar terms to the terms of the Guarantee Subordination Agreement (where applicable) with respect to the subordination in right of payment, payment blockage, restrictions on enforcement, turnover, release and other customary senior debt protections (or, in the case of any such terms, terms more favorable to the holders of the Notes).

Such amendment and/or restatement of the Guarantee Subordination Agreement or such entry into an Additional Guarantee Subordination Agreement, as the case may be, will not impose any personal obligations on the Trustee or adversely affect the rights, duties, liabilities or immunities of the Trustee or the holders of Notes under the Indenture, the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement or result in the Trustee or the holders of the Notes being in breach, or otherwise in violation, of the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement.

The Indenture will also provide that, at the direction of the Company and without the consent of the holders of the Notes, the Trustee will, upon the direction of the Company, from time to time enter into one or more amendments to the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement to: (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) increase the amount of Indebtedness of the types covered by the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement in a manner not prohibited by the Indenture and in a manner substantially consistent with the ranking and terms of such Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement; (iii) add Guarantors or other parties (such as representatives of new issuances of Indebtedness) thereto; (iv) make any change necessary or desirable, in the good faith determination of an Officer of the Company, in order to implement any transactions permitted under the caption "*—Certain covenants—Merger, consolidation or sale of assets*"; *provided* that any such change does not adversely affect the rights of the holders of the Notes in any material respect; or (v) make any other such change thereto that does not adversely affect the rights of the holders of the Notes in any material respect; *provided* that the Trustee shall not be obligated to enter into any amendment to the extent such amendment imposes any personal obligations on the Trustee or, in the reasonable opinion of the Trustee, adversely affects the Trustee's rights, duties, liabilities or immunities under the Indenture, the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement.

The Company shall not otherwise direct the Trustee to enter into any amendment or restatement of the Guarantee Subordination Agreement or enter into any Additional Guarantee Subordination Agreement without the consent of the holders of a majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted as described below under "*—Amendment, supplement and waiver*."

The Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement may be discharged at the option of the Company if at the date of such discharge the Indebtedness of the Company or a Restricted Subsidiary in respect of Senior Liabilities (as defined in the Guarantee Subordination Agreement or any relevant Additional Guarantee Subordination Agreement) has been discharged or refinanced. The Trustee shall take all necessary actions to effectuate the discharge of the Guarantee Subordination Agreement or any relevant Additional Guarantee Subordination Agreement in accordance with these provisions, subject to customary protections and indemnifications.

Each holder of a Note, by accepting such Note, will be deemed to have:

(1) irrevocably appointed and authorized the Trustee to give effect to such provisions;

(2) authorized the Trustee to become a party to the Guarantee Subordination Agreement and any Additional Guarantee Subordination Agreements and perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Guarantee Subordination Agreement and any Additional Guarantee Subordination Agreements, together with any other incidental rights, power and discretions;

(3) agreed to be bound by such provisions and the provisions of the Guarantee Subordination Agreement and any Additional Guarantee Subordination Agreements; and

(4) irrevocably appointed the Trustee to act on its behalf to enter into and comply with such provisions and the provisions of the Guarantee Subordination Agreement and any Additional Guarantee Subordination Agreements.

No personal liability of directors, officers, employees and stockholders

No director, officer, employee, incorporator or stockholder of the Company or any Guarantor, as such, will have any liability for any obligations of the Company or the Guarantors under the Notes, the Indenture or the Note Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes. The waiver may not be effective to waive liabilities under U.S. federal securities laws.

Legal defeasance and covenant defeasance

The Company may at any time, at its option, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Guarantors discharged with respect to their Note Guarantees ("**Legal Defeasance**") except for:

(1) the rights of holders of outstanding Notes to receive payments in respect of the principal of, or interest (including Additional Amounts) or premium, if any, on, such Notes when such payments are due from the trust referred to below;

(2) the Company's obligations with respect to the Notes concerning registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Company's and the Guarantors' obligations in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have the obligations of the Company and the Guarantors released with respect to certain covenants (including the Company's obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture ("**Covenant Defeasance**") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment or, solely with respect to the Company, bankruptcy, receivership, rehabilitation and insolvency events) described under "—*Events of default and remedies*" will no longer constitute an Event of Default with respect to the Notes. If the Company exercises either its Legal Defeasance or Covenant Defeasance option, each Guarantor will be released and relieved of any obligations under its Note Guarantee.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Company must irrevocably deposit with the Trustee (or such other entity directed, designated or appointed as agent by the Trustee for this purpose), in trust, for the benefit of the holders of the Notes, cash in U.S. dollars, non-callable U.S. Government Obligations or a combination of cash in U.S. dollars and non-callable U.S. Government Obligations, in amounts as will be sufficient to pay the principal of, or interest (including Additional Amounts) and premium, if any, on, the outstanding Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Company must specify whether the Notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, the Company must deliver to the Trustee an opinion of United States counsel reasonably acceptable to the Trustee confirming that (a) the Company has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Company must deliver to the Trustee an opinion of United States counsel reasonably acceptable to the Trustee confirming that the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(5) the Company must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the holders of Notes over the other creditors of the Company with the intent of defeating, hindering, delaying or defrauding any creditors of the Company or others; and

(6) the Company must deliver to the Trustee an Officers' Certificate and an opinion of counsel, subject to customary assumptions and qualifications, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

For the avoidance of doubt, all cash and securities deposited with the Trustee (or such other entity directed, designated or appointed as agent by the Trustee for this purpose) to hold in trust pursuant to this section or "*—Satisfaction and discharge*" shall not be subject to subordination pursuant to the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement.

Amendment, supplement and waiver

Except as provided in the next two succeeding paragraphs, the Indenture, the Notes, the Note Guarantees, the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement may be amended or supplemented with the consent of the Company and the holders of a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture, the Notes, the Note Guarantees, the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Unless consented to by the holders of at least 90% of the aggregate principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), without the consent of the Company and each holder of Notes affected, an amendment, supplement or waiver may not (with respect to any Notes held by a non-consenting holder):

(1) reduce the principal amount of Notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption or repurchase of the Notes (other than provisions relating to the covenants described above under the caption "—*Repurchase at the option of holders*");

(3) reduce the rate of or change the time for payment of interest, including default interest, on any Note;

(4) waive a Default or Event of Default in the payment of principal of, or interest, Additional Amounts or premium, if any, on, the Notes (except a rescission of acceleration of the Notes by the holders of a majority in aggregate principal amount of the then outstanding Notes and a waiver of the payment default that resulted from such acceleration);

(5) make any Note payable in money other than that stated in the Notes;

(6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of holders of Notes to receive payments of principal of, or interest, Additional Amounts or premium, if any, on, the Notes (other than as permitted in clause (7) below);

(7) waive a redemption or repurchase payment with respect to any Note (other than a payment required by one of the covenants described above under the caption "—*Repurchase at the option of holders*");

(8) modify or release any of the Note Guarantees in any manner adverse to the holders of the Notes, other than in accordance with the terms of the Indenture and the Guarantee Subordination Agreement (or any Additional Guarantee Subordination Agreement);

(9) impair the right of any holder of Notes to institute suit for the enforcement of any payment on or with respect to such holder's Notes or any Note Guarantee in respect thereof;

(10) make any change to the ranking of the Notes or Note Guarantees, in each case in a manner that adversely affects the rights of the holders of the Notes; or

(11) make any change in the preceding amendment, supplement and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of Notes, the Company, the Guarantors and the Trustee may amend or supplement the Indenture, the Notes, the Note Guarantees, the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement for the purposes described under "—*Additional guarantee subordination agreements*" or:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code);

(3) to provide for the assumption of the Company's or a Guarantor's obligations to holders of Notes and Note Guarantees in the case of a transaction described under "—*Certain covenants—Merger, consolidation or sale of assets*";

(4) to make any change that would provide any additional rights or benefits to the holders of Notes or that does not adversely affect the legal rights under the Indenture of any such holder in any material respect;

(5) to conform the text of the Indenture, the Notes or the Note Guarantees to any provision of this "*Description of Notes*" to the extent that such provision in this "*Description of Notes*" was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Note Guarantees;

(6) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;

(7) to allow any Guarantor to Guarantee the Notes or to evidence the release of Note Guarantees pursuant to the terms of the Indenture;

(8) to the extent necessary to provide for the granting of a security interest for the benefit of any Person; *provided* that the granting of such security interest is not prohibited under the Indenture; or

(9) to evidence and provide for the acceptance and appointment of a successor trustee under the Indenture, the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement or to provide for the accession by the Trustee to the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement.

In formulating its opinion on such matters, the Trustee shall be entitled to rely absolutely on such evidence as it deems appropriate, including opinions of counsel and Officers' Certificates.

The consent of the holders of Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

For the avoidance of doubt, no amendment to, or deletion of any of the covenants described under "—*Certain covenants*," shall be deemed to impair or affect any rights of the holders of the Notes to receive payment of principal of, or premium, if any, or interest on, the Notes.

Satisfaction and discharge

The Indenture and the Note Guarantees will be discharged and will cease to be of further effect as to all Notes issued thereunder (except as to surviving rights to transfer or exchange Notes and as otherwise specified in the Indenture), when:

(1) either:

(a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Company, have been delivered to the Registrar for cancellation; or

(b) all Notes that have not been delivered to the Registrar for cancellation have become due and payable by reason of the providing of a notice of redemption or otherwise or will become due and payable within one year, and the Company or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee (or such other entity directed, designated or appointed as agent by the Trustee for this purpose) as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable U.S. Government Obligations or a combination of cash in U.S. dollars and non-callable U.S. Government Obligations, in amounts as will be sufficient, without consideration of any reinvestment of any interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Registrar for cancellation for principal, premium, Additional Amounts, if any, and accrued interest to the date of final maturity or redemption;

(2) in the case of clause (1)(b), no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Company or any Guarantor is a party or by which the Company or any Guarantor is bound;

(3) the Company or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and

(4) the Company has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at final maturity or on the redemption date, as the case may be.

In addition, the Company must deliver an Officers' Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied; *provided* that any such counsel may rely on any Officers' Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2), (3) and (4)).

If requested by the Company in writing the Trustee (or such other entity directed, designated or appointed as agent by the Trustee for this purpose) may distribute any amounts deposited in trust to the Holders prior to the final maturity or redemption date, as the case may be; provided, however, that the Trustee, the Principal Paying Agent and the Holders have received at least three Business Days' prior written notice from the Company of such earlier repayment date (which request may be included in the applicable notice of redemption pursuant to the above referenced Officer's Certificate); provided that the Notes shall be marked down on the date of early repayment and such early repayment will not occur prior to the record date set for redemption and the Trustee, such other entity directed, designated or appointed as agent by the Trustee for this purpose (if applicable) and the Paying Agent shall not be required to incur any losses, fees, costs or penalties in relation to such early distribution. For the avoidance of doubt, the distribution and payment to the Holders prior to the maturity or redemption date as set forth above shall not include any negative interest, present value adjustment, break cost or any additional premium on such amounts. To the extent the Notes are represented by a Global Note deposited with a depositary for the clearing system, any payment to the beneficial holders holding interests as a participant of such clearing system shall be subject to the then applicable procedures of the clearing system.

Listing

Application will be made to list the Notes on the Official List of the Luxemburg Stock Exchange and for admission to trading on the Euro MTF Market. There can be no assurance that the application will be accepted.

Financial calculations

When calculating the availability or permission under any basket or ratio under the Indenture, in each case, in connection with any acquisition, disposition, merger, joint venture, Investment or any other similar transaction (the "**Applicable Transaction**") where there is a time difference between commitment and closing or incurrence (including in respect of incurrence of Indebtedness, Restricted Payments and Permitted Investments), the date of determination of such basket or ratio and of any Default or Event of Default shall, at the option of the Company be (A) the date of the definitive agreements for such Applicable Transaction and the other transactions to be entered into in connection therewith (including any incurrence of Indebtedness and the use of proceeds thereof, and including any pro forma adjustments as are appropriate and consistent with the pro forma adjustments set forth in the definition of "**Fixed Charge Coverage Ratio**") as if they occurred at the beginning of the applicable reference period for purposes of determining the ability to consummate any such Applicable Transaction (and not for the purposes of any subsequent availability of any basket or ratio), (B) the date of consummation of any Applicable Transaction or (C) any other date relevant to the Applicable Transaction determined by the Company in good faith, in which case such baskets or ratios shall likewise be calculated on a pro forma basis after giving effect to the Applicable Transaction and the other transactions to be entered into in connection therewith (including any incurrence of Indebtedness and the use of proceeds thereof) as if they occurred at the beginning of the applicable reference period for purposes of determining the ability to consummate any such transaction. For the avoidance of doubt, (1) if any of such baskets or ratios are determined to be in compliance with (A) or (C) above and are exceeded as a result of fluctuations in such basket or ratio (including due to fluctuations in Consolidated Cash Flow or Consolidated Total Assets of the Company or the target company) subsequent to such date of determination and at or prior to the consummation of the relevant Applicable Transactions, such baskets or ratios will not be deemed to have been exceeded as a result of such fluctuations solely for the purposes of determining whether the transactions are permitted under the Indenture and (2) if the Company elects to have such determinations occur at the Acquisition Agreement Date or on another date as contemplated by (C) above, and in each case to be outstanding thereafter for purposes of calculating any baskets and ratios under the Indenture (except to the extent such Applicable Transaction is subsequently abandoned).

Unless otherwise specified in the Indenture, in the event that any amount or transaction meets the criteria of more than one of the baskets and exceptions set out in a particular provision of the Indenture (subject to the limitations imposed under clause (1) of the third paragraph under "*—Certain Covenants—Incurrence of Indebtedness and issuance of preferred stock*"), the Company may classify (and may from time to time reclassify) that amount or transaction to a particular basket or exception in respect of the same provision and will only be required to include that amount or transaction in one of those baskets or exceptions (and, for the avoidance of doubt, an amount or transaction may at the option of the Company be split between different baskets and exceptions).

Subject to the limitations imposed under clause (1) of the third paragraph under "*—Certain covenants—Incurrence of Indebtedness and issuance of preferred stock*," if a proposed action, matter, transaction or amount (or a portion thereof) is Incurred or entered into pursuant to a fixed permission and at a later time would subsequently be permitted under a ratio-based permission, unless otherwise elected by the Company, such action, matter, transaction or amount (or a portion thereof) shall automatically be reclassified to such ratio-based permission.

In the event any fixed permissions are intended to be utilized together with any ratio-based permissions in a single transaction or series of related transactions, (i) compliance with or satisfaction of any ratio-based permission for the portion of such indebtedness or other applicable transaction or action to be incurred under such ratio-based permission shall first be calculated without giving effect to amounts being utilized pursuant to any fixed permission but giving full *pro forma* effect to all applicable and related transactions (including, subject to the foregoing with respect to fixed baskets, any incurrence and repayments of indebtedness) and all other permitted *pro forma* adjustments, and (ii) thereafter, incurrence of the portion of such indebtedness or other applicable transaction or action to be incurred under any fixed permissions shall be calculated.

Judgment currency

Any payment on account of an amount that is payable in U.S. dollars which is made to or for the account of any holder or the Trustee in lawful currency of any other jurisdiction (the "**Judgment Currency**"), whether as a result of any judgment or order or the enforcement thereof or the liquidation of the Company or any Guarantor, shall constitute a discharge of the Company or the Guarantor's obligation under the Indenture and the Notes or Note Guarantee, as the case may be, only to the extent of the amount of U.S. dollars with such holder or the Trustee, as the case may be, could purchase in the London foreign exchange markets with the amount of the Judgment Currency in accordance with normal banking procedures at the rate of exchange prevailing on the first Business Day following receipt of the payment in the Judgment Currency. If the amount of U.S. dollars that could be so purchased is less than the amount of U.S. dollars originally due to such holder or the Trustee, as the case may be, the Company and the Guarantors shall indemnify and hold harmless the holder or the Trustee, as the case may be, from and against all loss or damage arising out of, or as a result of, such deficiency. This indemnity shall constitute an obligation separate and independent from the other obligations contained in the Indenture or the Notes, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holder or the Trustee from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due hereunder or under any judgment or order.

Concerning the Trustee

The Company shall deliver written notice to the Trustee within 30 days of becoming aware of the occurrence of a Default or an Event of Default. The Trustee will be permitted to engage in other transactions with the Company and its subsidiaries, If the Trustee becomes a creditor of the Company or any Guarantor, the Indenture will limit the right of the Trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claims as security or otherwise.

The holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. In case an Event of Default occurs and is continuing of which a responsible officer of the Trustee has received written notice, the Trustee will be required, in the exercise of its rights or powers, to use the degree of care of a prudent person in the conduct of its own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Notes, unless such holder has offered to the Trustee security and/or indemnity satisfactory to the Trustee against any loss, cost, liability or expense.

The Company and the Guarantors jointly and severally will indemnify the Trustee for certain claims, liabilities and expenses incurred without gross negligence, fraud or willful misconduct on the Trustee's part, arising out of or in connection with its duties and the administration of the Indenture.

Additional information

Anyone who receives this Offering Memorandum may, following the Issue Date, obtain a copy of the Indenture, the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement without charge by writing to EnQuest PLC, Cunard House, 15 Regent Street, London, SW1Y 4LR, United Kingdom, care of Stefan Ricketts.

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange shall so require, copies, current and future, of all of the Company's annual audited consolidated financial statements and the Company's unaudited consolidated interim financial statements may be obtained, free of charge, during normal business hours at the offices of the Paying Agents in New York and London.

Consent to jurisdiction and service of process

The Indenture will provide that each of the Company and the Guarantors will appoint CT Corporation System as its agent for service of process in any suit, action or proceeding with respect to the Indenture, the Notes and the Note Guarantees brought in any U.S. federal or New York state court located in the City of New York and will submit to such non-exclusive jurisdiction.

Enforceability of judgments

Since substantially all of the assets of the Company and the Guarantors are outside the United States, any judgment obtained in the United States against the Company or any Guarantor may not be collectable within the United States. See "*Service of process and enforcement of civil liabilities*."

Prescription

Claims against the Company or any Guarantor for the payment of principal or Additional Amounts, if any, on the Notes will not be permitted ten years after the applicable due date for payment thereof. Claims against the Company or any Guarantor for the payment of interest on the Notes will not be permitted five years after the applicable due date for payment of interest.

Governing law

The Indenture and the Notes, and the rights and duties of the parties thereunder, shall be governed by and construed in accordance with the laws of the State of New York. The Guarantee Subordination Agreement will be governed by the laws of England and Wales.

Certain definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

"*Acquired Debt*" means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary of, such specified Person; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"*Additional Assets*" means:

(1) any property or assets used or useful in the Energy Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or any of its Restricted Subsidiaries; or

(3) Capital Stock constituting a Minority Interest in any Person that at such time is a Restricted Subsidiary;

provided, however, that any such Restricted Subsidiary described in clauses (2) or (3) is primarily engaged in the Energy Business.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*Applicable Premium*" means, with respect to any Note at any time, the greater of (a) 1.0% of the principal amount of such Note and (b) the excess of:

(1) the present value at such time of (i) the redemption price of the Note on November 1, 2024 (such redemption price being set forth in the table appearing under the caption "—*Optional Redemption*"), plus (ii) all required interest payments due on the Note through November 1, 2024 (excluding accrued but unpaid interest to the redemption date) discounted back to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at a rate equal to the Treasury Rate as of such time plus 50 basis points; over

(2) the then-outstanding principal amount of the Note,

as calculated by the Company or on behalf of the Company by such Person as the Company may engage. For the avoidance of doubt, calculation of the Applicable Premium shall not be the duty or obligation of the Trustee, Registrar, Transfer Agent or any Paying Agent.

"*Asset Sale*" means:

(1) the sale, lease, conveyance or other disposition of any assets or rights (including by way of a Production Payment but excluding an operating lease entered into in the ordinary course of the Energy Business); *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption "—*Repurchase at the option of holders—Change of control*" and/or the provisions described above under the caption "—*Certain covenants—Merger, consolidation or sale of assets*" and not by the provisions described under the caption "—*Repurchase at the option of holders—asset sales*"; and

(2) the issuance of Equity Interests in any of the Company's Restricted Subsidiaries or the sale by the Company or its Restricted Subsidiaries of Equity Interests in any of the Company's Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than $50.0 million;

(2) a transfer or other disposition of assets or Equity Interests between or among the Company and/or its Restricted Subsidiaries;

(3) an issuance or sale of Equity Interests by a Restricted Subsidiary of the Company to the Company or to a Restricted Subsidiary of the Company;

(4) the sale, lease or other disposition of products, services, Hydrocarbons or mineral products inventory or accounts receivable or other assets in the ordinary course of business;

(5) the abandonment, decommissioning, farm-out transfer in exchange for carry, lease or sublease of any oil and gas properties or the forfeiture or other disposition of such properties, in each case in the ordinary course of business;

(6) the disposition of assets to a Person who is providing services (the provision of which have been or are to be outsourced by the Company or any Restricted Subsidiary to such Person) related to such assets;

(7) any sale or other disposition of damaged, unserviceable, worn-out or obsolete assets in the ordinary course of business;

(8) the sale or other disposition of cash or Cash Equivalents or other financial assets in the ordinary course of business;

(9) for purposes of the covenant described above under the heading "—*Repurchase at the option of holders—Asset sales*" only, the making of a Permitted Investment or a disposition subject to the covenant described above under the caption "—*Certain covenants—Restricted payments*";

(10) the sale or other disposition (whether or not in the ordinary course of business) of crude oil and natural gas properties (for the avoidance of doubt, whether by direct sale or disposition or through a sale or disposition of shares); *provided*, that at the time of such sale or other disposition such properties do not have associated with them any proved and probable reserves;

(11) any Asset Swap;

(12) granting of Liens not prohibited by the covenant described under the caption "—*Certain covenants—Liens*";

(13) the licensing or sublicensing of intellectual property, including, without limitation, licenses for seismic data or other general intangibles and licenses, leases or subleases of other property, in the ordinary course of business and which do not materially interfere with the business of the Company and its Restricted Subsidiaries taken as a whole;

(14) a surrender or waiver of contract rights, oil and gas leases or the settlement, release or surrender of contract, tort or other claims of any kind;

(15) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(16) any sale or other disposition of any oil and gas properties or interests therein to any governmental authority that is (i) a result of a relinquishment to, or a compulsory or involuntary acquisition by, such authority or (ii) made in connection with acquiring, renewing or retaining, as applicable, any other oil and gas properties or interests awarded by such governmental authority; *provided* that any cash or Cash Equivalents received in connection with any such sale or other disposition must be applied in accordance with the covenant described under "—*Repurchase at the option of holders—Asset sales*";

(17) foreclosure, condemnation or any similar action with respect to any property or other assets; and

(18) any Production Payments and Reserve Sales; *provided* that any such Production Payments and Reserve Sales, other than incentive compensation programs on terms that are reasonably customary in the Energy Business for geologists, geophysicists and other providers of technical services to the Company or a Restricted Subsidiary, shall have been created, incurred, issued, assumed or Guaranteed in connection with the financing of, and within 60 days after the acquisition of, the property that is subject thereto.

"*Asset Swap*" means any substantially contemporaneous (and in any event occurring within 180 days of each other) purchase and sale or exchange (including, without limitation, by way of any farm-out, farm-in, lease or sublease or any other contractual transfer of rights) of any assets or properties or interests therein (including, for the avoidance of doubt, shares in companies owning such assets or properties or interests therein or otherwise primarily engaged, directly or indirectly, in the Energy Business) used or useful in the Energy Business between the Company or any of its Restricted Subsidiaries and another Person; *provided* that the Fair Market Value of the properties or assets or interests therein traded or exchanged (including, without limitation, by way of any farm-out, farm-in, lease, sublease or any other contractual transfer of rights) by the Company or such Restricted Subsidiary (together with any cash) is reasonably equivalent (as determined in good faith by a responsible accounting or financial officer of the Company) to the Fair Market Value of the properties or assets or interests therein (including, without limitation, by way of any farm-out, farm-in, lease, sublease or any other contractual transfer of rights) (together with any cash) to be received by the Company or such Restricted Subsidiary, and *provided further* that any net cash received must be applied in accordance with the provisions described above under the caption "—*Repurchase at the option of holders—asset sales*" if then in effect.

"*Authority*" means the Luxembourg Stock Exchange or any other Recognized Stock Exchange, as applicable.

"*Bank Credit Facilities*" means any Credit Facility that does not constitute Public Indebtedness.

"*Beneficial Owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the U.S. Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the U.S. Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "Beneficial Ownership," "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"*Board of Directors*" means:

(1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the board of directors of the general partner of the partnership;

(3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Borrowing Base Facilities*" means one or more debt facilities, instruments or arrangements incurred by the Company, any Restricted Subsidiary or any Finance Subsidiary with banks providing for revolving credit loans, term loans or letters of credit, or other Indebtedness, pursuant to a reserves and/or resources-based borrowing base or other asset-backed base and/or calculation based on the present value of estimated future oil and gas revenues and/or development financing, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any promissory notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "Borrowing Base Facilities" shall include any agreement or instrument (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Company as additional borrowers, issuers or guarantors thereunder, (3) increasing the amount of Indebtedness incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

"*Business Day*" means each day that is not a Saturday, Sunday or other day on which banking institutions in London, Luxembourg or New York or another place of payment under the Indenture are authorized or required by law to close.

"*Calculation Date*" has the meaning given in the definition of "Fixed Charge Coverage Ratio."

"*Capital Lease Obligation*" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

"*Capital Stock*" means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or, membership interests; and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person,

but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

"*Cash Equivalents*" means:

(1) securities issued or directly and fully guaranteed or insured by the government of the United States of America, a member state of the European Union on the Issue Date, the United Kingdom, Switzerland, Norway, Canada, Australia or Japan (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the United States, the relevant member state of the European Union, the United Kingdom, Switzerland, Norway, Canada, Australia or Japan, as the case may be, having maturities of not more than fifteen months from the date of acquisition, the long-term debt of which is rated at the time of acquisition thereof is at least "A" or the equivalent thereof by S&P, or "A2" or the equivalent thereof by Moody's or the equivalent rating category of another internationally recognized rating agency;

(2) certificates of deposit, time deposits, eurodollar time deposits, money market deposits, overnight bank deposits or bankers' acceptances (and similar instruments) having maturities of not more than fifteen months from the date of acquisition thereof issued by any commercial bank, the long-term debt of which is rated at the time of acquisition thereof at least "A−" or the equivalent thereof by S&P, or "A3" or the equivalent thereof by Moody's or the equivalent rating category of another internationally recognized rating agency, and having combined capital and surplus in excess of $250.0 million;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) entered into with any financial institution meeting the qualifications specified in clause (2) above;

(4) commercial paper rated at the time of acquisition thereof at least "A-2" or the equivalent thereof by S&P or "P-2" or the equivalent thereof by Moody's, or carrying an equivalent rating by an internationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of investments, and in any case maturing within one year after the date of acquisition thereof;

(5) in the case of any Restricted Subsidiary of the Company located outside the United States, Canada, the United Kingdom and the European Union, any substantially similar investment to the kinds described in clauses (2) and (3) of this definition obtained in the ordinary course of business and (i) with the highest ranking obtainable in the applicable jurisdiction or (ii) with any bank, trust company or similar entity, which would rank, in terms of combined capital and surplus and undivided profits or the ratings on its long-term debt, among the top five banks in such jurisdiction; and

(6) interests in any investment company or money market fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (4) above.

"*Change of Control*" means the occurrence of any of the following:

(1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d) of the U.S. Exchange Act);

(2) the adoption of a plan relating to the liquidation or dissolution of the Company; or

(3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any "person" (as defined above) other than one or more Permitted Holders becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of the Company, measured by voting power rather than number of shares.

Notwithstanding the foregoing, (a) a transaction will not be deemed to involve a Change of Control solely as a result of the Company becoming a direct or indirect Wholly-Owned Subsidiary of a holding company if (1) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Company's Voting Stock immediately prior to that transaction or (2) immediately following that transaction no Person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company, (b) the right to acquire Voting Stock (so long as such person does not have the right to direct the voting of the Voting Stock subject to such right) will not cause a party to be a beneficial owner and (c) any Voting Stock beneficially owned by any Permitted Holder shall not be included in any Voting Stock of which any other person or group is the beneficial owner so long as such other person does not have greater voting power with respect to such Permitted Holder's Voting Stock.

"*Clearstream*" means Clearstream Banking, *société anonyme* and its successors.

"*Consolidated Cash Flow*" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus* the following, without duplication:

(1) an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with a sale of assets (together with any related provision for taxes and any related non-recurring charges relating to any premium or penalty paid, write-off of deferred financing costs or other financial recapitalization charges in connection with redeeming or retiring any Indebtedness prior to its Stated Maturity) to the extent deducted in calculating such Consolidated Net Income; *plus*

(2) taxes based on income or profits of such Person and its Restricted Subsidiaries for such period to the extent deducted in calculating such Consolidated Net Income; *plus*

(3) the Fixed Charges of such Person and its Restricted Subsidiaries for such period to the extent deducted in calculating such Consolidated Net Income; *plus*

(4) depreciation, depletion, amortization (including, without limitation, amortization of intangibles and deferred financing fees but excluding amortization of prepaid cash expenses that were paid in a prior period), impairment and other non-cash charges and expenses (including, without limitation, write downs and impairment of property, plant, equipment and intangible and other long lived assets and the impact of purchase accounting on the Company and its Restricted Subsidiaries for such period), of such Person and its Restricted Subsidiaries (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) for such period to the extent deducted in calculating such Consolidated Net Income; *plus*

(5) any expenses, charges or other costs related to the issuance of any Capital Stock, or any Permitted Investment, acquisition, disposition, recapitalization or listing or the incurrence of Indebtedness permitted to be incurred under the covenant described above under the caption "*—Certain covenants—incurrence of indebtedness and issuance of preferred stock*" (including any refinancing thereof) whether or not successful, including (i) such fees, expenses or charges related to any incurrence of Indebtedness issuance and (ii) any amendment or other modification of any incurrence, in each case to the extent deducted in calculating such Consolidated Net Income; *plus*

(6) any foreign currency translation losses (including losses related to currency remeasurements of Indebtedness); *plus*

(7) the amount of any minority interest expense (whether paid or not) consisting of subsidiary income attributable to Minority Interests of third parties in any non-wholly owned Restricted Subsidiary in such period or any prior period, except to the extent of dividends declared or paid on, or other cash payments in respect of, Equity Interests held by such parties; *plus*

(8) if such Person accounts for its oil and natural gas operations using successful efforts or a similar method of accounting, consolidated exploration and abandonment expense and write-offs of the Company and its Restricted Subsidiaries; *plus*

(9) any income or charge attributable to a post-employment benefit scheme other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme; *plus*

(10) the proceeds of any business interruption insurance received or that become receivable during such period to the extent the associated losses arising out of the event that resulted in the payment of such business interruption insurance proceeds were included in computing Consolidated Net Income; *plus*

(11) the amount of management, monitoring, consulting and advisory fees and related expenses paid in such period to the Permitted Holders to the extent permitted by the covenant described under "*—Certain Covenants—Limitations on Affiliate Transactions*;" *plus*

(12) payments received or that become receivable with respect to expenses that are covered by the indemnification provisions in any agreement entered into by such Person in connection with an acquisition to the extent such expenses were included in computing Consolidated Net Income; *minus*

(13) non-cash items increasing such Consolidated Net Income for such period (other than any non-cash items increasing such Consolidated Net Income pursuant to clauses (1) through (10) of the definition of Consolidated Net Income), other than items that were accrued in the ordinary course of business; and *minus*

(14) the sum of (a) the amount of deferred revenues that are amortized during such period and are attributable to reserves that are subject to Volumetric Production Payments and (b) amounts recorded in accordance with IFRS as repayments of principal and interest pursuant to Dollar-Denominated Production Payments,

in each case, on a consolidated basis and determined in accordance with IFRS.

"*Consolidated Leverage*" means, as of any date of determination, with respect to any specified Person, the total amount of Indebtedness under Credit Facilities of such Person and its Restricted Subsidiaries on a consolidated basis (excluding Hedging Obligations and excluding letters of credit), *less* cash and Cash Equivalents held by such specified Person on that date of determination.

"*Consolidated Leverage Ratio*" means, as of any date of determination, with respect to any specified Person, the ratio of (a) the Consolidated Leverage of such Person on such date to (b) the Consolidated Cash Flow of the Person for the two most recent half-year periods ending immediately prior to such date for which internal financial statements are available. For purposes of calculating the Consolidated Cash Flow for such period:

(1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Restricted Subsidiaries, during the two half-year reference period or subsequent to such reference period, and on or prior to the date of determination, or that are to be made on the date of determination, will be given *pro forma* effect (including Pro Forma Cost Savings) as if they had occurred on the first day of the two half-year reference period;

(2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of on or prior to the date of determination (including transactions giving rise to the need to calculate such Consolidated Leverage Ratio) will be excluded;

(3) any Person that is a Restricted Subsidiary on the date of determination will be deemed to have been a Restricted Subsidiary at all times during such two half-year reference period;

(4) any Person that is not a Restricted Subsidiary on the date of determination will be deemed not to have been a Restricted Subsidiary at any time during such two half-year reference period; and

(5) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness, and if any Indebtedness is not denominated in the Company's functional currency, that Indebtedness for purposes of this calculation of Consolidated Leverage shall be treated in accordance with IFRS).

For purposes of this definition, whenever *pro forma* effect is to be given to a transaction or cost optimization initiative, the *pro forma* calculation shall be determined in good faith by a responsible accounting or financial officer of the Company and may include Pro Forma Cost Savings. In determining the amount of Indebtedness in respect of borrowed money outstanding on any date of determination, *pro forma* effect will be given to any incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness in respect of borrowed money on such date. Any undrawn amounts under revolving credit Indebtedness shall be deemed not to be outstanding.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiaries), determined in accordance with IFRS; *provided* that:

(1) the net income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the aggregate amount of cash or Cash Equivalents actually distributed by such Person during such period to the specified Person or a Restricted Subsidiary of the Person, as a dividend or other distribution or return on investment or could have been distributed, as reasonably determined by an Officer;

(2) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph under the caption "*—Certain covenants—Restricted payments*," any net income (but not loss) of any Restricted Subsidiary (other than any Guarantor) will be excluded if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to such Person (or any Guarantor that holds the Equity Interests of such Restricted Subsidiary, as applicable) by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes (including Additional Notes), the Note Guarantees, the Indenture or the Guarantee Subordination Agreement or any Additional Guarantee Subordination Agreement, (c) contractual restrictions in effect on the Issue Date with respect to the Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that taken as a whole, are not materially less favorable to the holders of the Notes than such restrictions in effect on the Issue Date and (d) any restriction listed under clauses (1), (2), (3), (4) or (11) of the second paragraph of the covenant described above under the caption "*—Certain covenants—Dividend and other payment restrictions affecting subsidiaries*") except that such Person's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to such Person or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary (other than any Guarantor), to the limitation contained in this clause);

(3) the cumulative effect of a change in accounting principles will be excluded;

(4) income resulting from transfers of assets (other than cash) between such Person or any of its Restricted Subsidiaries, on the one hand, and an Unrestricted Subsidiary, on the other hand, will be excluded;

(5) any gain (loss) realized upon the sale or other disposition of any property, plant or equipment of such Person or its consolidated Restricted Subsidiaries (including pursuant to any sale or leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by a responsible accounting or financial officer of such Person) and any gain (loss) realized upon the sale or other disposition of any Capital Stock of any Person will be excluded;

(6) any "ceiling limitation" or other asset impairment write-downs on oil and gas properties will be excluded;

(7) all deferred financing costs written off and premiums paid or other expenses incurred directly in connection with any early extinguishment of Indebtedness or Hedging Obligations and any net gain (loss) from any write-off or forgiveness of Indebtedness will be excluded;

(8) any unrealized non-cash gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations will be excluded;

(9) any non-cash compensation charge or expense arising from any grant of stock, stock option or other equity-based award will be excluded;

(10) any non-cash expenses, accruals or reserves to adjustments to historical tax exposures or the release of any valuation allowances related to such item.

(11) any unrealized foreign currency translation or transaction gains or losses in respect of Indebtedness or other obligations of any Person denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses resulting from remeasuring assets and liabilities denominated in foreign currencies will be excluded;

(12) to the extent deducted in the calculation of net income, any non- cash or non-recurring charges associated with any premium or penalty paid, write-off of deferred financing costs or other financial recapitalization charges in connection with redeeming or retiring any Indebtedness prior to its Stated Maturity will be excluded;

(13) any one-time non-cash charges or amortization or depreciation, or any acquisition of another Person or business or resulting from any reorganization or restructuring will be excluded;

(14) any goodwill or other intangible asset amortization charge, impairment charge or write-off or write-down will be excluded; and

(15) (a) extraordinary, exceptional, unusual or non-recurring gains, losses or charges, (b) any asset impairment charges or the financial impacts of natural disasters (including fire, flood and storm and related events) or (c) any non-cash charges or reserves in respect of any restructurings, redundancy, integration or severance, or other post-employment arrangements, signing, retention or completion bonuses, transaction costs, acquisition costs, business optimization initiatives, system establishment, software or information technology implementation or development, costs related to governmental investigations and curtailments or modifications to pension or post-retirement benefits schemes, litigation or any asset impairment charges, in each case will be excluded.

"*Consolidated Total Assets*" means the total assets of the Company and its Subsidiaries on a consolidated basis, as shown on the most recent consolidated balance sheet of the Company prepared in accordance with IFRS, as adjusted to give *pro forma* effect to acquisitions and dispositions made prior to or that are made on the date of determination.

"*Contingent Obligations*" means, with respect to any Person, any obligation of such Person Guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that, in each case, does not constitute Indebtedness ("primary obligations") of any other Person (the "primary obligor"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

    (a) for the purchase or payment of any such primary obligation; or

    (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof; or

(4) for the avoidance of doubt, any contingent obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions, or similar claims, obligations or contributions or social security or wage taxes.

"*continuing*" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"*Credit Facilities*" means, one or more debt facilities, capital markets indentures, instruments or arrangements incurred by the Company, any Restricted Subsidiary or any Finance Subsidiary (including, without limitation the RBL Facility, Borrowing Base Facilities, commercial paper facilities, letters of credit facilities, banks' acceptances and overdraft facilities) with banks, funds or other institutions or investors, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables) or letters of credit, notes or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or trustees or other banks, funds, institutions or investors and whether provided under the RBL Facility, Borrowing Base Facilities or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any promissory notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "Credit Facilities" shall include any agreement or instrument (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Company as additional borrowers, issuers or guarantors thereunder, (3) increasing the amount of Indebtedness incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

"*Currency Exchange Protection Agreement*" means, in respect of any Person, any foreign exchange contract, currency swap agreement, currency option, cap, floor, ceiling or collar agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates as to which such Person is a party.

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Designated Non-Cash Consideration*" means the Fair Market Value of non-cash consideration received by the Company or one of its Restricted Subsidiaries in connection with an Asset Sale that is so designated as "Designated Non-Cash Consideration" pursuant to an Officers' Certificate, setting forth the basis of such valuation, *less* the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Non-Cash Consideration.

"*Disqualified Stock*" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature; *provided*, that only the portion of Capital Stock which so matures or is mandatorily redeemable, or is so redeemable at the option of the holder thereof prior to such date, will be deemed to be Disqualified Stock. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the Company to repurchase or redeem such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that the Company may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "*—Certain covenants—Restricted payments*." For purposes hereof, the amount of Disqualified Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the Fair Market Value of such Disqualified Stock, such Fair Market Value to be determined as set forth herein.

"*Dollar-Denominated Production Payments*" means production payment obligations recorded as liabilities in accordance with IFRS, together with all undertakings and obligations in connection therewith.

"*Energy Business*" means:

(1) the acquisition, exploration, exploitation, development, production, operation and disposition of interests in oil, natural gas, natural gas liquids, liquefied natural gas and other Hydrocarbon, mineral and renewable energy properties or products produced in association with the foregoing;

(2) the gathering, marketing, distributing, compressing, handling, developing, treating, refining, processing, storing, terminalling, selling and transporting of any production from oil, natural gas, natural gas liquids, liquefied natural gas and other Hydrocarbon, mineral and renewable energy properties (whether or not such properties are owned by the Company and/or its Subsidiaries) and products produced in association therewith, or in constructing or contracting with third parties for the construction of infrastructure in support of the same and the marketing of oil, natural gas, other hydrocarbons, minerals and renewable energy obtained from unrelated Persons;

(3) any other related energy business, including, without limitation, (i) power generation and electrical transmission business, from oil, natural gas and other Hydrocarbons, minerals and renewable energy produced substantially from properties in which the Company or its Restricted Subsidiaries, directly or indirectly, participates and (ii) providing or sourcing front end studies or other engineering solutions, subsea production equipment or offshore field design for oil and gas companies;

(4) any business relating to oil and gas field seismic mapping, sales, service provision and technology development; and

(5) any business or activity relating to, arising from, or necessary, appropriate or incidental to the activities described in clauses (1), (2), (3) and (4) of this definition.

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*Equity Offering*" means any public or private sale of Capital Stock (other than Disqualified Stock and other than to a Subsidiary of the Company) by the Company after the Issue Date.

"*Euroclear*" means Euroclear Bank SA/NV and its successors, as operator of the Euroclear System.

"*Exchange*" means the Luxembourg Stock Exchange or any other Recognized Stock Exchange, as applicable.

"*Existing Indebtedness*" means Indebtedness of the Company and its Restricted Subsidiaries (other than Indebtedness under the RBL Facility and the MTN Program Notes) in existence on the date of the Indenture.

"*Existing Senior Notes*" means the Company's 7% senior notes due 2023 with an aggregate principal amount of $650,000,000 (until such Existing Senior Notes are redeemed in connection with the Transactions).

"*Fair Market Value*" means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party, as determined in good faith by a responsible accounting or financial officer of the Company.

"*Finance Subsidiary*" means a Wholly-Owned Subsidiary of the Company that is formed for the purpose of borrowing funds or issuing securities and lending the proceeds to the Company or a Guarantor and that conducts no business other than as may be reasonably incidental to, or related to, the foregoing.

"*Fitch*" means Fitch, Inc. or any successor to its ratings business.

"*Fixed Charge Coverage Ratio*" means, with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, Guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary course working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "**Calculation Date**"), then the Fixed Charge Coverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of the Company) to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable two full half-year reference period; *provided*, *however*, that the *pro forma* calculation of Fixed Charges shall not give effect to (i) any Indebtedness incurred on the Calculation Date (and, for the avoidance of doubt, not reclassified on such Calculation Date) pursuant to the provisions described in the second paragraph under "*—Certain covenants—Incurrence of indebtedness and issuance of preferred stock*" or (ii) the discharge on the Calculation Date of any Indebtedness to the extent that such discharge results from the application of the proceeds of any Indebtedness incurred pursuant to the provisions described in the second paragraph under "*—Certain covenants—Incurrence of indebtedness and issuance of preferred stock*."

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers, consolidations or otherwise (including acquisitions of assets used or useful in the Energy Business), or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including any related financing transactions and including increases in ownership of Restricted Subsidiaries, during the two half-year reference period or subsequent to such reference period and on or prior to the Calculation Date or that are to be made on the Calculation Date, will be given *pro forma* effect (including Pro Forma Cost Savings) as if they had occurred on the first day of the two half-year reference period;

(2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such two half-year reference period; and

(5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such two half-year reference period.

"*Fixed Charges*" means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense (net of interest income) of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (excluding any interest attributable to Dollar-Denominated Production Payments) including, without limitation, amortization of discount (but not debt issuance costs, commissions, fees and expenses), non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments), the interest component of any deferred payment obligations (but not with respect to any decommissioning obligations), the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations (excluding amortization of fees) in respect of interest rates; *plus*

(2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*

(3) any interest on Indebtedness of another Person that is Guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, to the extent paid in cash by such Person or any of its Restricted Subsidiaries; *plus*

(4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of Disqualified Stock of such Person or any series of preferred stock of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of such Person (other than Disqualified Stock) or to the Person or a Restricted Subsidiary of such Person, *times* (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current statutory tax rate of such Person, expressed as a decimal.

"*FPSO*" means any floating storage and offloading unit, floating storage and production unit, floating production, storage and offloading unit or similar moveable infrastructure (including vessels used or useful in connection with performing seismic surveys) and any related infrastructure in connection with the foregoing.

"*Guarantee*" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to maintain financial statement conditions or otherwise), or entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term "Guarantee" will not include the endorsements for collection or deposit in the ordinary course of business or any obligation to the extent it is payable only in Capital Stock of the guarantor that is not Disqualified Stock. The term "Guarantee" used as a verb has a corresponding meaning.

"*Guarantee Subordination Agreement*" means the subordination agreement dated on April 9, 2014 between, among others, the Company, the Trustee and the facility agent and security trustee under the senior facility, and to which the Trustee will accede on the Issue Date, as amended, restated or otherwise modified or varied from time to time.

"*Guarantors*" means, collectively, EnQuest Heather Limited, EnQuest Heather Leasing Limited, EnQuest ENS Limited, EnQuest Britain Limited, EQ Petroleum Sabah Ltd, EnQuest Production Limited, EnQuest NWO Limited, EnQuest Global Limited, EnQuest Advance Limited, EnQuest Petroleum Production Malaysia Ltd, North Sea (Golden Eagle) Resources Ltd., NSIP (GKA) Limited, EnQuest Marketing and Trading Limited, EnQuest Petroleum Developments Malaysia Sdn. Bhd., and EnQuest Advance Holdings Limited and any other Person that Guarantees the Notes in accordance with the provisions of the Indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the Indenture.

"*Hedging Obligations*" means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements, other agreements or arrangements designed to manage interest rates or interest rate risk;

(2) any foreign exchange contract, currency swap agreement, currency option, cap, floor, ceiling or collar agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates;

(3) any forward contract, commodity futures contract, commodity option agreement, commodity swap agreement, cap, floor, ceiling or collar agreement or other similar agreement or arrangement designed to protect against fluctuations in the price of commodities used, produced, processed or sold by that Person or any of its Restricted Subsidiaries at the time; and

(4) other agreements or arrangements designed to protect such Person against fluctuations in interest rates, commodity prices, weather conditions or currency exchange rates, including Currency Exchange Protection Agreements.

"*Hydrocarbons*" means oil, gas, casing head gas, drip gasoline, natural gasoline, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and all constituents, elements or compounds thereof and products refined or processed therefrom.

"*IFRS*" means International Financial Reporting Standards as issued by the International Accounting Standards Board and in effect on the Issue Date or, with respect to the covenant entitled "*—Certain Covenants—Reports*," as in effect from time to time.

"*Indebtedness*" means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables):

(1) in respect of borrowed money;

(2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(3) in respect of bankers' acceptances (or reimbursement obligations in respect thereof except to the extent any such reimbursement obligations relate to trade payables and such obligations are satisfied within 30 days of incurrence);

(4) representing Capital Lease Obligations;

(5) representing the balance deferred and unpaid of the purchase price of any property due more than one year after such property is acquired;

(6) representing any Hedging Obligations;

(7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however,* that the amount of such Indebtedness will be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Persons; and

(8) the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person (including, with respect to any Production Payment, any warranties or guarantees of production or payment by such Person with respect to such Production Payment, but excluding other contractual obligations of such Person with respect to such Production Payment);

provided that the foregoing indebtedness (other than letters of credit and Hedging Obligations) shall be included in this definition of Indebtedness only if, and to the extent that, the indebtedness would appear as a liability upon a balance sheet of such Person prepared in accordance with IFRS; provided that, notwithstanding any consolidation under IFRS, the preceding items shall not constitute "Indebtedness" for the purposes hereof if (i) such Indebtedness is incurred by an orphan vehicle whose shares are not owned by such specified Person or any of its Subsidiaries and (ii) such Indebtedness is neither guaranteed by, nor secured by the assets of, such specified Person or any of its Subsidiaries. Notwithstanding the foregoing, indebtedness shall be included in the definition of Indebtedness after deducting any receivable due from another Person (other than the Company and its Restricted Subsidiaries) who has an interest in an asset financed with such indebtedness to the Company or any Restricted Subsidiary in respect of such other Person's interest in the relevant asset. Subject to clause (8) of the preceding sentence, neither Dollar-Denominated Production Payments nor Volumetric Production Payments shall be deemed to be Indebtedness.

The term "*Indebtedness*" shall not include:

(1) any lease of property which would have been considered an operating lease under IAS 17 prior to January 1, 2019;

(2) for the avoidance of doubt, Contingent Obligations;

(3) any obligation of a Person in respect of a farm-in agreement or similar arrangement whereby such Person agrees to pay all or a share of the drilling, completion or other expenses of an exploratory or development well (which agreement may be subject to a maximum payment obligation, after which expenses are shared in accordance with the working or participation interest therein or in accordance with the agreement of the parties) or perform the drilling, completion or other operation on such well in exchange for an ownership interest in an oil or gas property;

(4) in-kind obligations relating to net oil or natural gas balancing positions arising in the ordinary course of business; or

(5) in connection with the purchase by the Company or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing.

"*Investment Grade Status*" shall occur when the Notes are rated as follows by two of the following three Rating Agencies: Baa3 or better by Moody's, BBB− or better by S&P and/or BBB− or better by Fitch (or, if any such entity ceases to rate the Notes, the equivalent investment grade credit rating from any other "nationally recognized statistical rating organization," as that term is defined for purposes of Section 3(a)(62) of the U.S. Exchange Act, selected by the Company as a replacement agency).

"*Investments*" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations, but excluding advances or extensions of credit to customers or suppliers made in the ordinary course of business), advances or capital contributions (excluding endorsements of negotiable instruments and documents in the ordinary course of business, and commission, travel and similar advances to officers, employees and consultants made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS. If the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Company's Investments in such Restricted Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain covenants—Restricted payments*." The acquisition by the Company or any Subsidiary of the Company of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Company or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain covenants—Restricted payments*." Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value and, to the extent applicable, shall be determined based on the equity value of such Investment.

"*Issue Date*" means October 25, 2022.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof.

"*Listing Authority*" means any nationally recognized listing authority in the United States, Jersey, Guernsey, the United Kingdom or any member state of the European Union.

"*Management Advances*" means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers or employees of the Company or any Restricted Subsidiary:

(1) in respect of travel, entertainment or moving and housing-related and similar expense incurred in the ordinary course of business;

(2) in respect of moving related expenses incurred in connection with any closing or consolidation of any facility or office; or

(3) in the ordinary course of business and (in the case of this clause (3)) not exceeding $10.0 million in the aggregate outstanding at any time.

"*Market Capitalization*" means an amount equal to the greater of (a) (i) the total number of issued and outstanding shares of share capital or common equity interests of the Company on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such share capital or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend and (b) £75.0 million, being the market capitalization at the time of the initial public offering of EnQuest PLC.

"*Minority Interest*" means the percentage interest represented by any shares of stock of any class of Capital Stock of a Restricted Subsidiary of the Company that are not owned by the Company or a Restricted Subsidiary of the Company.

"*Moody's*" means Moody's Investors Service, Inc. or any successor to its ratings business.

"*MTN Program*" means the Company's medium-term note program, pursuant to which the Company issued or will issue MTN Program Notes.

"*MTN Program Notes*" means the Company's £155.0 million 5.5% notes originally due February 15, 2022, which were automatically extended to October 15, 2023, issued under a trust deed dated January 24, 2013 pursuant to the MTN Program, and the Company's £133.3 million 9.0% notes due October 27, 2027 issued under a trust deed dated April 27, 2022 and any future notes issued pursuant to the MTN Program.

"*Net Proceeds*" means the aggregate cash proceeds received by the Company or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration or Cash Equivalents received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation:

(1) all legal, accounting, investment banking, commissions and other fees and expenses incurred, title and recording tax expenses, and all Taxes required to be paid or accrued as a liability under IFRS, as a consequence of such Asset Sale;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Sale, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale, or by applicable law be repaid out of the proceeds from such Asset Sale;

(3) all distributions and other payments required to be made to holders of Minority Interests in Subsidiaries or joint ventures as a result of such Asset Sale; and

(4) the deduction of appropriate amounts to be provided by the seller as a reserve, in accordance with IFRS, or held in escrow, in either case for adjustment in respect of the sale price or for any liabilities associated with the assets disposed of in such Asset Sale and retained by the Company or any Restricted Subsidiary after such Asset Sale.

"*Non-Recourse Debt*" means Indebtedness:

(1) as to which neither the Company nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender;

(2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness of the Company or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its Stated Maturity; and

(3) the explicit terms of which provide there is no recourse to the stock or assets of the Company or any of its Restricted Subsidiaries, except as contemplated by clause (26) of the definition of Permitted Liens.

"*Note Guarantee*" means the Guarantee by each Guarantor of the Company's Obligations under the Indenture and the Notes pursuant to the Indenture.

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Offering*" has the meaning set forth in this Offering Memorandum under "*Definitions*."

"*Offering Memorandum*" means this offering memorandum dated October 12 2022.

"*Officer*" means, with respect to any Person, a member of the Board of Directors, the chief executive officer, the president, the chief financial officer, any vice president, the treasurer, any managing director, any responsible accounting or financial officer, the secretary or the equivalent position of any of the foregoing or any other Person that the Board of Directors of such Person shall designate for such purpose.

"*Officers' Certificate*" means a certificate signed on behalf of any Person by one or more Officers of such Person.

"*Permitted Business Investments*" means Investments made in the ordinary course of, and of a nature that is or has become customary in, the Energy Business, as a means of actively exploiting, exploring for, acquiring, developing, producing, processing, gathering, marketing, distributing, storing or transporting oil, natural gas or other Hydrocarbons, minerals and/or renewable energy (including with respect to plugging and abandonment) through agreements, transactions, interests or arrangements that permit one to share risks or costs, comply with regulatory requirements regarding local ownership or satisfy other objectives customarily achieved through the conduct of the Energy Business jointly with third parties, including without limitation:

(1) direct or indirect ownership of crude oil, natural gas, other restricted Hydrocarbon and minerals properties or any interest therein or gathering, transportation, processing, storage or related systems or ancillary real property interests;

(2) Investments in the form of or pursuant to operating agreements, joint ventures, processing agreements, farm-in agreements, farm-out agreements, development agreements, production sharing agreements, area of mutual interest agreements, contracts for the sale, transportation or exchange of crude oil and natural gas and other Hydrocarbons, minerals and/or renewable energy, participation agreements, unitization agreements, pooling arrangements, joint bidding agreements, service contracts, partnership agreements (whether general or limited), subscription agreements, stock purchase agreements, stockholder agreements and other similar agreements (including for limited liability companies) or other similar or customary agreements, in each case made or entered into with third parties (including Unrestricted Subsidiaries); and

(3) direct or indirect ownership interests in drilling rigs, FPSOs and common processing facilities and in each case related equipment, including, without limitation, transportation equipment.

"*Permitted Holders*" means, collectively,

(1) Amjad Bseisu and any of his Affiliates;

(2) any person having a relationship with Amjad Bseisu by blood, marriage or adoption not more remote than first cousin;

(3) any heir of Amjad Bseisu and any beneficiary of his estate;

(4) any trust or similar arrangement established solely for the benefit of Amjad Bseisu or any Person mentioned in clause (2) or (3) of this definition; provided that Amjad Bseisu or any such Person retains sole control over the voting rights of the Capital Stock held by such trust or arrangement;

(5) any Person that is directly or indirectly owned solely by any other Permitted Holder described under clause (1), (2), (3) or (4) of this definition;

(6) for the avoidance of doubt, any Person or group, together with their Affiliates, whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture.

"*Permitted Investments*" means:

(1) any Investment in the Company or in a Restricted Subsidiary of the Company;

(2) any Investment in cash and Cash Equivalents;

(3) any Investment by the Company or any Restricted Subsidiary of the Company in any Person whose primary business is the Energy Business, if as a result of such Investment:

 (a) such Person becomes a Restricted Subsidiary of the Company; or

 (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its properties or assets to, or is liquidated into, the Company or a Restricted Subsidiary of the Company;

(4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "*—Repurchase at the option of holders—Asset sales*";

(5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Company;

(6) any Investments received in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Company or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (B) litigation, arbitration or other disputes with Persons who are not Affiliates;

(7) Investments represented by Hedging Obligations;

(8) receivables owing to the Company or any Restricted Subsidiary created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided, however,* that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(9) surety and performance bonds and workers' compensation, utility, lease, tax, performance and similar deposits and prepaid expenses in the ordinary course of business;

(10) Guarantees of Indebtedness permitted under the covenant contained under the caption "*—Certain covenants—Incurrence of indebtedness and issuance of preferred stock*";

(11) guarantees by the Company or any of its Restricted Subsidiaries of operating leases (other than Capital Lease Obligations) or of other obligations that do not constitute Indebtedness, in each case entered into by any Restricted Subsidiary in the ordinary course of business;

(12) Investments of a Restricted Subsidiary acquired after the Issue Date or of any entity merged into the Company or merged into or consolidated or amalgamated with a Restricted Subsidiary in accordance with the covenant described under "*—Certain covenants—Merger, consolidation or sale of assets*" to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger, consolidation or amalgamation and were in existence on the date of such acquisition, merger or consolidation;

(13) Permitted Business Investments;

(14) Investments received as a result of a foreclosure by the Company or any of its Restricted Subsidiaries with respect to any secured Investment in default;

(15) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; *provided* that the amount of any

such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the Indenture;

(16) Guarantees of performance or other obligations (other than Indebtedness) arising in the ordinary course in the Energy Business, including obligations under oil and natural gas exploration, development, joint operating, and related agreements and licenses, concessions or operating leases related to the Energy Business;

(17) Investments in the Notes and any other Indebtedness of the Company or any Restricted Subsidiary;

(18) Management Advances;

(19) payroll, commission, travel, relocation and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business, in each case to the extent the same constitutes an Investment;

(20) Investments in any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers' compensation, performance and similar deposits made in the ordinary course of business by the Company or any Restricted Subsidiary;

(21) receivables or working capital loans or other such similar forms of credit support owing to the Company or any Restricted Subsidiary of the Company and advances to suppliers, contractors or builders, in each case payable or dischargeable in accordance with such trade terms as the Company or such Restricted Subsidiary deems reasonable under the circumstances;

(22) (a) loans or grants customary or advisable in the Energy Business in respect of community development projects or economic development activities appropriate for the Company's regions of operation and in regions other than the United Kingdom and Malaysia and consistent with past practice or counterparty requirements and (b) Investments made with funds received by the Company and its Restricted Subsidiaries from grants or donations from third parties; and

(23) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (23) that are at the time outstanding, not to exceed the greater of (x) \$120 million and (y) 3.5% of Consolidated Total Assets; *provided* that if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described above under the caption "*—Certain covenants—Restricted payments*," such Investment shall thereafter be deemed to have been made pursuant to clauses (1) or (3) of the definition of "Permitted Investments" and not this clause.

"*Permitted Liens*" means, with respect to any Person:

(1) Liens securing Indebtedness incurred under (i) Bank Credit Facilities pursuant to the first paragraph of the covenant entitled "*—Certain covenants—Incurrence of indebtedness and issuance of preferred stock*" and (ii) Credit Facilities pursuant to clause (1) of the second paragraph of the covenant entitled "*—Certain covenants—Incurrence of indebtedness and issuance of preferred stock*;"

(2) Liens in favor of the Company or any Restricted Subsidiary;

(3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated or amalgamated with the Company or any Subsidiary of the Company; *provided* that such Liens were in existence prior to the contemplation of such merger, consolidation or amalgamation and do not extend to any assets other than those of the Person merged into or consolidated or amalgamated with the Company or the Subsidiary;

(4) Liens on property (including Capital Stock) existing at the time of acquisition of the property by the Company or any Subsidiary of the Company; *provided* that such Liens were in existence prior to such acquisition, and not incurred in contemplation of, such acquisition;

(5) Liens existing on the Issue Date;

(6) Liens on Capital Stock of and assets of any Restricted Subsidiary that is not a Guarantor that secures Indebtedness of such Restricted Subsidiary or any other Restricted Subsidiary that is not a Guarantor;

(7) Liens for taxes, assessments or governmental charges or claims that (x) are not yet due and payable or (y) that are being contested in good faith by appropriate proceedings;

(8) survey exceptions, easements or reservations of, or rights of others for, licenses, rights of way, gas and oil pipelines, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(9) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;

(10) Liens in favor of customs and revenue authorities arising as a matter of law to secure payments of customs duties in connection with the importation of goods;

(11) any attachment, prejudgment or judgment Lien that does not constitute an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;

(12) Liens created for the benefit of (or to secure) the Notes (or the Note Guarantees);

(13) Liens to secure any Permitted Refinancing Indebtedness permitted to be incurred under the Indenture; *provided, however,* that:

(a) the new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

(b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness extended, renewed, refunded, refinanced, replaced, exchanged, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any costs, fees and expenses, including premiums and defeasance costs, related to such extension, renewal, refunding, refinancing, replacement, exchange, defeasance or discharge;

(14) Liens for the purpose of securing (a) all or any part of the purchase price, lease expense, rental payments or cost of design, construction, installation or improvement of, or any other capital expenses in relation to, any FPSO, rig or production facility used or useful in the Energy Business and any Permitted Refinancing Indebtedness in respect thereof permitted to be incurred under the Indenture and (b) the payment of all or a part of the purchase price or lease expense of, or Capital Lease Obligations with respect to, or the repair, improvement or construction cost of, assets or property acquired or repaired, improved or constructed in the ordinary course of business;

(15) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained or deposited with a depositary institution;

(16) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(17) Liens in respect of Production Payments and Reserve Sales, *provided* such Liens are limited to the property that is the subject of such Production Payment and Reserve Sale;

(18) Liens on pipelines and pipeline facilities that arise by operation of law;

(19) Liens arising under oil and gas leases or subleases, assignments, farm-out agreements, farm-in agreements, division orders, contracts for the sale, purchase, exchange, transportation, gathering or processing of Hydrocarbons, unitizations and pooling designations, declarations, orders and agreements, development agreements, partnership agreements, operating agreements, royalties, royalty trusts, working interests, carried working interests, net profit interests, joint interest billing arrangements, joint venture agreements, participation agreements, production sales contracts, area of mutual interest agreements, gas balancing or deferred production agreements, injection, repressuring and recycling agreements, salt water or other disposal agreements, seismic or geophysical permits or agreements, licenses, sublicenses and other agreements which are customary in the Energy Business; *provided, however*, in all instances that such Liens are limited to the assets that are subject to the relevant agreement, program, order or contract;

(20) any (a) interest or title of a lessor or sublessor under any lease, Liens reserved in oil, gas or other Hydrocarbons, mineral leases for bonus, royalty or rental payments and for compliance with the terms of such leases; (b) restriction or encumbrance that the interest or title of such lessor or sublessor may be subject to (including without limitation, ground leases or other prior leases of the demised premises, mortgages, mechanics' liens, tax liens, and easements); or (c) subordination of the interest of the lessee or sublessee under such lease to any restrictions or encumbrance referred to in the preceding subclause (b);

(21) Liens arising under the Indenture in favor of the Trustee for its own benefit and similar Liens in favor of other trustees, agents and representatives arising under instruments governing Indebtedness permitted to be incurred under the Indenture, *provided, however,* that such Liens are solely for the benefit of the trustees, agents or representatives in their capacities as such and not for the benefit of the holders of the Indebtedness;

(22) Liens securing Hedging Obligations, which obligations are permitted by clause (9) of the second paragraph of the covenant described under "*—Certain covenants—Incurrence of indebtedness and issuance of preferred stock";*

(23) Liens upon specific items of inventory, receivables or other goods (or the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances or receivables securitizations issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory, receivables or other goods (or the proceeds thereof);

(24) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of assets entered into in the ordinary course of business;

(25) (i) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord, contractor or other third party on property over which the Company or any Restricted Subsidiary has easement rights or on any real property leased by the Company or any Restricted Subsidiary (including those arising from progress or partial payments by a third party relating to such property or assets) and subordination or similar agreements relating thereto and (ii) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;

(26) Liens (including put and call arrangements) on Capital Stock or other securities of any Unrestricted Subsidiary or joint venture that secure Indebtedness of such Unrestricted Subsidiary or joint venture (but only to the extent that such Indebtedness is not Indebtedness of the Company or a Guarantor);

(27) pledges of goods, the related documents of title and/or other related documents arising or created in the ordinary course of the Company or any Restricted Subsidiary's business or operations as Liens only for Indebtedness to a bank or financial institution directly relating to the goods or documents on or over which the pledge exists;

(28) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures;

(29) Liens on any proceeds loan made by the Company or any Restricted Subsidiary in connection with any future incurrence of Indebtedness permitted under the Indenture and securing that Indebtedness;

(30) Liens created on any asset of the Company or a Restricted Subsidiary established to hold assets of any stock option plan or any other management or employee benefit or incentive plan or unit trust of the Company or a Restricted Subsidiary securing any loan to finance the acquisition of such assets;

(31) Liens over treasury stock of the Company or a Restricted Subsidiary purchased or otherwise acquired for value by the Company or such Restricted Subsidiary pursuant to a stock buy-back scheme or other similar plan or arrangement;

(32) Liens with respect to Indebtedness of the Company or any Subsidiary of the Company with respect to Indebtedness at any one time outstanding that does not exceed the greater of (x) $45 million and (y) 1.25% of Consolidated Total Assets as determined on the date of incurrence of such Indebtedness after giving *pro forma* effect to such incurrence and the application of the proceeds therefrom;

(33) grants of software and other technology licenses in the ordinary course of business;

(34) the following ordinary course items:

(a) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;

(b) landlords', carriers', warehousemen's, mechanics', materialmen's, repairmen's or the like Liens arising by contract or statute in the ordinary course of business;

(c) pledges or deposits made in the ordinary course of business (A) in connection with leases, tenders, bids, statutory obligations, surety or appeal bonds, government contracts, performance bonds and similar obligations, (B) in connection with workers' compensation, unemployment insurance and other social security legislation (including, in each case, Liens to secure letters of credit issued to assure payment of such obligations) or (C) to secure plugging, abandonment and decommissioning obligations;

(d) Liens arising from Uniform Commercial Code financing statement filings under U.S. state law (or similar filings under applicable jurisdictions) regarding operating leases entered into by the Company and its Restricted Subsidiaries in the ordinary course of business;

(e) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings in the ordinary course of business;

(f) leases, licenses, subleases and sublicenses of assets in the ordinary course of business; and

(g) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities; and

(35) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (2) through (34) (but excluding clauses (14) and (32)); *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of the Company or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, renew, refund, refinance, replace, exchange, defease or discharge other Indebtedness of the Company or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:

(1) the aggregate principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of the Indebtedness being extended, renewed, refunded, refinanced, replaced, exchanged, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has (a) a final maturity date that is either (i) no earlier than the final maturity date of the Indebtedness being extended, renewed, refunded, refinanced, replaced, exchanged, defeased or discharged or (ii) after the final maturity date of the Notes and (b) has a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being extended, renewed, refunded, refinanced, replaced, exchanged, defeased or discharged;

(3) if the Indebtedness being extended, renewed, refunded, refinanced, replaced, exchanged defeased or discharged is expressly contractually subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, on terms at least as favorable to the holders of Notes or the Note Guarantees, as the case may be, as those contained in the documentation governing the Indebtedness being extended, renewed, refunded, refinanced, replaced, exchanged, defeased or discharged; and

(4) if the Company or any Guarantor was the obligor on the Indebtedness being extended, renewed, refunded, refinanced, replaced, defeased or discharged, such Indebtedness is incurred either by the Company, a Finance Subsidiary or by a Guarantor.

Permitted Refinancing Indebtedness in respect of any Credit Facility or any other Indebtedness may be incurred from time to time after the termination, discharge or repayment of all or any part of such Credit Facility or other Indebtedness.

"*Permitted Reorganization*" means any amalgamation, demerger, merger, voluntary liquidation, consolidation, reorganization, redomiciliation, winding up or corporate restriction involving the Company or any of its Restricted Subsidiaries and the assignment, transfer or assumption of intragroup receivables and payables among the Company and its Restricted Subsidiaries in connection therewith (a "**Reorganization**") that is made on a solvent basis; provided that after giving effect to such Permitted Reorganization: (a) all of the business and assets distributed in connection with such Reorganization remain owned by the Company and its Restricted Subsidiaries, (b) any payments or assets distributed in connection with such Reorganization remain within the Company and its Restricted Subsidiaries, (c) the Company will provide to the Trustee an Officer's Certificate confirming that no Default is continuing or would arise as a result of such Reorganization and (d) in the case of a Reorganization involving the Company (x) an entity organized or existing under the laws of any member state of the European Union as in effect on the Issue Date, the United Kingdom, Jersey, Switzerland, Norway, Canada, Australia, Japan, any state in the United States or the District of Columbia and (y) the Person formed by or surviving any such Reorganization (if other than the Company) will expressly assume (i) by supplemental indenture, executed and delivered to the Trustee, all the obligations of the Company under the Guarantee Subordination Agreement and any Additional Guarantee Subordination Agreement to which the Company is a party, as applicable.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Production Payments*" means, collectively, Dollar-Denominated Production Payments and Volumetric Production Payments.

"*Production Payments and Reserve Sales*" means the grant or transfer by the Company or a Restricted Subsidiary of the Company to any Person of a royalty, overriding royalty, net profits interest, Production Payment, partnership or other interest in oil and gas properties, reserves or the right to receive all or a portion of the production or the proceeds from the sale of production attributable to such properties where the holder of such interest has recourse solely to such production or proceeds of production, subject to the obligation of the grantor or transferor to operate and maintain, or cause the subject interests to be operated and maintained, in a reasonably prudent manner or other customary standard or subject to the obligation of the grantor or transferor to indemnify for environmental, title or other matters customary in the Energy Business, including any such grants or transfers pursuant to incentive compensation programs on terms that are reasonably customary in the Energy Business for geologists, geophysicists and other providers of technical services to the Company or a Subsidiary of the Company.

"*Pro Forma Cost Savings*" means, without duplication, with respect to any period, reductions in costs, other operating improvements or synergies and related adjustments that have been actually realized or are projected in good faith by a responsible accounting or financial officer of the Company to result from reasonably identifiable and factually supportable actions (including cost optimization or other initiatives) or events, but only if such reductions in costs, other operating improvements or synergies and related adjustments are so projected by the Company to be realized during the consecutive six-quarter reference period commencing after the transaction or initiative giving rise to such calculation.

"*Public Equity Offering*" means, with respect to any Person, a *bona fide* underwritten primary public offering of the ordinary shares or common equity of such Person, either:

(1) pursuant to a flotation on the London Stock Exchange or any other nationally recognized stock exchange or listing authority in a member state of the European Union; or

(2) pursuant to an effective registration statement under the U.S. Securities Act (other than a registration statement on Form S-8 or otherwise relating to Equity Interests issued or issuable under any employee benefit plan).

"Public Indebtedness" means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (x) a public offering or (y) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A under the U.S. Securities Act (or Rule 144A and Regulation S under the U.S. Securities Act) whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale. For the avoidance of doubt, the term "Public Indebtedness" shall not be construed to include any Indebtedness issued to institutional investors in a direct placement of such Indebtedness that is not underwritten by an intermediary (it being understood that, without limiting the foregoing, a financing that is distributed to not more than fifteen Persons (provided that multiple managed accounts and affiliates of any such Persons shall be treated as one Person for the purposes of this definition) shall be deemed not underwritten), or any commercial bank or similar Indebtedness, receivables financing, Capital Lease Obligation or recourse transfer of any financial asset or any other type of Indebtedness incurred in a manner not customarily viewed as a "securities offering."

"*Rating Agencies*" means (1) S&P, (2) Moody's, (3) Fitch and (4) if S&P, Moody's, Fitch or any of these shall not make a rating of the Notes available, an internationally-recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody's, Fitch or any of these, as the case may be.

"*RBL Facility*" means the secured revolving borrowing base facility agreement dated as of June 10, 2021, entered into between, among others, the Company, as obligor, and BNP Paribas, as agent and security agent, as amended from time to time and, as the context requires, as most recently amended and restated on or prior to the Issue Date.

"*Recognized Stock Exchange*" means any nationally recognized stock exchange in the United States, Jersey, Guernsey, Luxembourg, the United Kingdom or any member of the European Union.

"*Refinancing*" means the use of proceeds from the Offering, together with cash on balance, to redeem the Existing Senior Notes in full.

"*Restricted Investment*" means an Investment other than a Permitted Investment.

"*Restricted Subsidiary*" of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary. Unless the context requires otherwise, each reference to a Restricted Subsidiary herein is to a Restricted Subsidiary of the Company.

"*S&P*" means Standard & Poor's Ratings Services and any successor to its ratings business.

"*SEC*" means the U.S. Securities and Exchange Commission.

"*Senior Debt*" means, whether outstanding on the Issue Date or thereafter incurred, all amounts payable by, under or in respect of all other Indebtedness of the Company or any Guarantor, including premiums and accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company or such Guarantor at the rate specified in the documentation with respect thereto whether or not a claim for post-filing interest is allowed in such proceeding) and fees relating thereto; *provided*, *however*, that Senior Debt will not include:

(a) any Indebtedness incurred in violation of the Indenture;

(b) any obligation of (i) the Company to any Restricted Subsidiary or (ii) any Guarantor to the Company or any Restricted Subsidiary;

(c) any liability for taxes owed or owing by the Company or any Restricted Subsidiary;

(d) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities);

(e) any Indebtedness, guarantee or obligation of the Company or any Guarantor that is evidenced by an instrument that expressly provides, in the case of the Company, that it is subordinate in right of payment to the Notes, or in the case of any Guarantor, that it is subordinate or *pari passu* in right of payment with the Note Guarantee of such Guarantor; or

(f) any Capital Stock.

"*Significant Subsidiary*" means, at the date of determination, any Restricted Subsidiary that, together with its Subsidiaries which are Restricted Subsidiaries, (i) for the most recent fiscal year, accounted for more than 10% of the consolidated revenues of the Company or (ii) as of the end of the most recent fiscal year, was the owner of more than 10% of the consolidated assets of the Company.

"*Stated Maturity*" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Subordinated Obligation*" means any Indebtedness of the Company (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Notes pursuant to a written agreement or any Indebtedness of a Guarantor (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Note Guarantee of such Guarantor pursuant to a written agreement, as the case may be.

"*Subsidiary*" means, with respect to any specified Person:

(1) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of its Voting Stock is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof);

(2) any corporation, association or other business entity of which that Person or one or more of the other Subsidiaries of that Person (or any combination thereof), directly or indirectly, has the right to appoint a majority of the directors, managers or trustees, as applicable, or has the operational control of the corporation, association or other business entity and the financial results of such corporation, association or other business entity are consolidated with the financial results of such Person or one or more of the other Subsidiaries of that Person (or any combination thereof); and

(3) any partnership, joint venture, limited liability company or similar entity of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"*Tax*" means any tax, duty, levy, impost, assessment or other governmental charge in the nature of a tax (including penalties, interest and any other additions thereto). "Taxes" and "Taxation" shall be construed to have corresponding meanings.

"*Tax Sharing Agreement*" means any payments or other transactions pursuant to any tax sharing agreement or arrangement among the Company or any of its Restricted Subsidiaries and any other Person with which the Company or its Restricted Subsidiaries files or filed a consolidated tax return or with which the Company or any of its Restricted Subsidiaries is or was part of a consolidated group for tax purposes or any tax advantageous group contribution made pursuant to applicable legislation.

"*Transactions*" means collectively, the Offering, the Refinancing and the amendment of the RBL Facility.

"*Treasury Rate*" means, in respect of any redemption date, the yield to maturity as of the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (or, if such statistical release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to November 1, 2024; *provided, however,* that if the period from the redemption date to November 1, 2024 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. The Company will calculate the Treasury Rate no later than the second (and no earlier than the fourth) Business Day preceding the applicable redemption date.

"*U.S. dollars*" or "*$*" means the lawful currency of the United States of America.

"*U.S. Government Obligations*" means direct obligations of, or obligations guaranteed by, the United States of America, and the payment for which the United States pledges its full faith and credit.

"*Unrestricted Subsidiary*" means any Subsidiary of the Company that is designated by the Board of Directors of the Company as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt; and

(2) except as permitted by the covenant described above under the caption "*—Certain covenants—Transactions with affiliates*," is not party to any agreement, contract, arrangement or understanding with the Company or any Restricted Subsidiary of the Company unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Company.

All Subsidiaries of an Unrestricted Subsidiary shall also be Unrestricted Subsidiaries.

"*U.S. Exchange Act*" means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"*U.S. Securities Act*" means the United States Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

"*Volumetric Production Payments*" means production payment obligations recorded as deferred revenue in accordance with IFRS, together with all related undertakings and obligations.

"*Voting Stock*" of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one- twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

"*Wholly-Owned Subsidiary*" means a Restricted Subsidiary, all of the Capital Stock of which (other than directors' qualifying shares or shares required by any applicable law or regulation to be held by a Person other than the Company or another Wholly-Owned Subsidiary) is owned by the Company or another Wholly-Owned Subsidiary, as the case may be.

BOOK-ENTRY, DELIVERY AND FORM

General

The Notes sold outside the United States pursuant to Regulation S under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Regulation S Global Note**").

The Notes sold within the United States to qualified institutional buyers, pursuant to Rule 144A, will initially be represented by a global note in registered form without interest coupons attached (the "**144A Global Note**" and, together with the Regulation S Global Note, the "**Global Notes**"). On the closing date the Global Notes will be deposited with a custodian of DTC and registered in the name of Cede & Co., as nominee of DTC.

Investors who are qualified institutional buyers and who purchase Notes in reliance on Rule 144A may hold their interests in a Rule 144A Global Note directly through DTC if they are DTC participants, or indirectly through organizations that are DTC participants. Investors who hold beneficial interests in a Regulation S Global Note may hold such interests directly through DTC if they are DTC participants, or indirectly through organizations that are DTC participants. DTC will hold interests in the Regulation S Global Note on behalf of their participants through their respective depositaries, which in turn will hold the interests in the Regulation S Global Note in customers' securities accounts in the depositaries' names on the books of DTC. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by DTC and its participants. The Book-Entry Interests in the Global Notes will be issued only in denominations of $200,000 and integral multiples of $1,000 in excess thereof.

The Book-Entry Interests will not be held in definitive form. Instead, DTC will credit on its book-entry registration and transfer systems a participant's account with the interest beneficially owned by such a participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, owners of interests in the Global Notes will not have the Notes registered in their names, will not receive physical delivery of the Notes in certificated form and will not be considered the registered owners or "holder" of Notes under the Indenture for any purpose.

So long as the Notes are held in global form, DTC (or its nominee) will be considered the holder of Global Notes for all purposes under the Indenture. As such, participants must rely on the procedures of DTC and indirect participants must rely on the procedures of DTC and the participants through which they own Book-Entry Interests to exercise any rights of holders under the Indenture.

None of the Company, any Guarantor, the Trustee, the Principal Paying Agent, the Registrar or the Transfer Agent under the indenture governing the Notes, nor any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Issuance of definitive registered notes

Under the terms of the indenture governing the Notes, owners of Book-Entry Interests will receive definitive Notes in registered form (the "**Definitive Registered Notes**"):

- if DTC notifies the Company that it is unwilling or unable to continue to act as depository and the Company does not appoint a successor depositary within 120 days;

- if the Company, at its option but subject to DTC's rules, notifies the Trustee in writing that it elects to exchange in whole, but not in part, the Global Note for Definitive Registered Notes; or

- if DTC so requests following an event of default under the Indenture.

In such an event, the registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of DTC or the Company, as applicable (in accordance with its customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in "**Notice to investors,**" unless that legend is not required by the indenture governing the Notes or applicable law.

Redemption of global notes

In the event any Global Note, or any portion thereof, is redeemed, DTC will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of DTC if fewer than all of the Notes are to be redeemed at any time, DTC will credit their respective participants' accounts on a by lot basis (with adjustments to prevent fractions) or on such other basis as they deem fair and appropriate (DTC's current procedures dictate that selection of Notes for redemption will be by lot); provided, however, that no Book-Entry Interest of less than $200,000 in principal amount may be redeemed in part.

Payments on global notes

The Company will make payments of amounts owing in respect of the Global Notes (including principal, premium, interest and additional amounts) to the Principal Paying Agent. The Principal Paying Agent will, in turn, make such payments to DTC or its nominee, which will distribute such payments to participants in accordance with their respective procedures.

Under the terms of the indenture governing the Notes, the Company, the Trustee, the Principal Paying Agent, the Transfer Agent and the Registrar will treat the registered holder of the Global Notes (i.e., the nominee for DTC) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither the Company nor the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspects of maintaining, supervising or reviewing the records of DTC or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or

- DTC or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in "street name."

To tender Book-Entry Interests in a change of control offer, the holder of the applicable Global Note must, within the period specified in such offer, give notice of such tender to the tender agent or depository for such offer and specify the principal amount of Book-Entry Interests to be tendered.

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests in such Notes through DTC in dollars.

Action by owners of book-entry interests

DTC has advised the Company that it will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. DTC will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, DTC reserves the right to exchange the Global Notes for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to their respective participants.

Transfers

Transfers between participants in DTC will be done in accordance with DTC rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such holder must transfer its interest in the Global Notes in accordance with the normal procedures of DTC and in accordance with the provisions of the indenture governing the Notes.

The Global Notes will bear a legend to the effect set forth in "*Notice to investors*." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfer discussed in "*Notice to investors*."

During the period ending 40 days after the commencement of the Offering of the Notes (the "**40-Day Period**"), beneficial interests in a Regulation S Global Note may be transferred to a U.S. person only if such transfer is made pursuant to Rule 144A and the transferor first delivers to the Trustee a certificate (in the form provided in the indenture governing the Notes) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Notice to Investors*" and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

After the expiration of the 40 Day Period, beneficial interests in a Regulation S Global Note may be transferred to a U.S. person without compliance with these certification requirements.

Subject to the foregoing, and as set forth in "*Notice to investors*" Book-Entry Interests may be transferred and exchanged as described under "*Description of Notes—Transfer and exchange*." Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in the other Global Note, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it retains such a Book-Entry Interest.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under "*Description of Notes—Transfer and exchange*" and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the indenture governing the Notes) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "*Notice to investors*."

Transfers involving an exchange of a Regulation S Book-Entry Interest for 144A Book-Entry Interest will be done by DTC by means of an instruction originating from the Trustee through the DTC Deposit/Withdrawal at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the 144A Global Note. The policies and practices of DTC may prohibit transfers of Book-Entry Interests in the Regulation S Global Note prior to the expiration of the 40-Day Period. Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book Entry Interest in the other Global Note will, upon transfer, cease to be a Book Entry Interest in the first-mentioned Global Note and become a Book Entry interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book Entry Interests in such other Global Note for as long as it remains such a Book Entry Interest.

Information concerning DTC

All Book-Entry Interests will be subject to the operations and procedures of DTC. The Company provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Company nor the Initial Purchasers nor the Trustee, the Principal Paying Agent, the Transfer Agent or the Registrar is responsible for those operations or procedures. DTC has advised the Company that it is:

- a limited purpose trust company organized under New York Banking Law;
- a "banking organization" under New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the U.S. Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations (including Euroclear and Clearstream). DTC's owners are the NYSE Euronext and the National Association of Securities Dealers, Inc. and a number of its direct participants. Other parties, such as banks, brokers and dealers and trust companies, who clear through or maintain a custodial relationship with a direct participant, also have access to the DTC system and are known as indirect participants.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in DTC or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited.

Global clearance and settlement under the book-entry system

The Notes represented by the Global Notes are expected to be admitted to listing on the Official List of the Exchange and to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore be required by DTC to be settled in immediately available funds. You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving Notes through DTC on days when such system is open for business. Such system may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving DTC on the same business day as in the United States.

Although DTC currently follows the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Company, any Guarantor, the Trustee, the Principal Paying Agent, the Registrar, the Transfer Agent or any of their respective agents will have any responsibility for the performance by DTC or its respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Initial settlement

Initial settlement for the Notes will be made in U.S. dollars. Book-Entry Interests owned through DTC accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of DTC participants on the Business Day following the settlement date against payment for value on the settlement date.

Secondary market trading

The Book-Entry Interests will trade through participants of DTC and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TAXATION

Certain United States federal income tax considerations to U.S. holders

The following discussion is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes, but does not purport to be a complete analysis of all potential tax effects. The summary is limited to consequences relevant to a U.S. holder(as defined below), except for discussions on FATCA (as defined under "*—Foreign Account Tax Compliance Act*"), and does not address the effects of any U.S. federal tax laws other than U.S. federal income tax laws (such as estate and gift tax laws) or any state, local or non-U.S. tax laws. This discussion is based upon the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury regulations issued thereunder, and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. No rulings from the U.S. Internal Revenue Service (the "**IRS**") have been or are expected to be sought with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position would not be sustained.

This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances, including the impact of the alternative minimum tax or the unearned income Medicare contribution tax, or to holders subject to special rules, such as certain financial institutions, U.S. expatriates, insurance companies, dealers in securities or currencies, traders in securities, U.S. holders whose functional currency is not the U.S. dollar, tax exempt organizations, regulated investment companies, real estate investment trusts, partnerships or other pass through entities or arrangements and investors in such entities or arrangements, persons subject to special tax accounting rules as a result of any item of gross income with respect to the Notes being taken into account in an applicable financial statement, holders of Existing Senior Notes that are redeemed with the proceeds from this offering, U.S. holders that hold Notes through non-U.S. brokers or other non-U.S. intermediaries and persons holding the Notes as part of a "straddle," "hedge," "conversion transaction" or other integrated transaction for U.S. federal income tax purposes. In addition, this discussion is limited to persons who purchase the Notes in the Offering hereby for cash at original issue and at their "issue price" (the first price at which a substantial amount of the Notes is sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Notes as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment).

For purposes of this discussion, a "**U.S. holder**" is a beneficial owner of a Note that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States; (ii) a corporation or any entity taxable as a corporation for U.S. federal income tax purposes created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia; (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a U.S. person.

If any entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the Notes, the U.S. federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partner and the partnership. A partnership considering an investment in the Notes, and partners in such a partnership, should consult their tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes.

Prospective purchasers of the Notes should consult their tax advisors concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of other U.S. federal tax laws (such as estate and gift tax laws) and state, local, non-U.S. or other tax laws.

Characterization of the Notes

In certain circumstances, we may be obligated to make payments on the Notes in excess of stated principal and interest. See, e.g., "*Description of Notes—Additional amounts*" and "*Description of Notes—Repurchase at the option of holders—Change of control*". We intend to take the position that the foregoing contingencies should not cause the Notes to be treated as contingent payment debt instruments. This position is based, in part, on assumptions regarding the likelihood of such payments as of the date of issuance of the Notes.

Assuming such position is respected, a U.S. holderwould be required to include in income the amount of any such additional payments at the time such payments are received or accrued in accordance with such U.S. holder's method of accounting for U.S. federal income tax purposes. Our position is binding on a holder unless the holder discloses in the proper manner to the IRS that it is taking a different position. If the IRS successfully challenged our position, and the Notes are treated as contingent payment debt instruments, U.S. holders could be required to accrue interest income at a rate higher than their yield to maturity and to treat as ordinary income, rather than capital gain, any gain recognized on a sale, exchange, retirement or redemption of a Note. This disclosure assumes that the Notes will not be considered contingent payment debt instruments. U.S. holders are urged to consult their own tax advisors regarding the potential application of the contingent payment debt instrument rules to the Notes and the consequences thereof.

Payments of stated interest

Payments of stated interest on the Notes (as well as any additional amounts and without reduction for any taxes withheld) generally will be includible in the gross income of a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. holder's method of accounting for U.S. federal income tax purposes.

Original issue discount

The Notes will be issued with OID for U.S. federal income tax purposes. The Notes will be treated as issued with OID because the stated principal amount of the Notes exceeds their issue price (as defined above) by an amount equal to or greater than a statutorily defined de minimis amount (generally, 0.0025 multiplied by the stated principal amount and the number of complete years to maturity from the issue date).

U.S. holders generally will be required to include such OID in gross income (as ordinary income) for U.S. federal income tax purposes on an annual basis under a constant yield accrual method regardless of their regular method of accounting for U.S. federal income tax purposes. As a result, U.S. holders generally will include any OID in income in advance of the receipt of cash attributable to such income.

The amount of any OID with respect to a Note includible in income by a U.S. holder is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion thereof in which such U.S. holder holds the Note. A daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID that accrued in such period. The accrual period of a Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or last day of an accrual period. The amount of OID that accrues with respect to any accrual period other than a final accrual period and an initial short accrual period is the excess of (i) the product of the Note's "adjusted issue price" at the beginning of such accrual period and its "yield to maturity," determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over (ii) the amount of stated interest allocable to such accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity, other than a payment of stated interest, and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The adjusted issue price of a Note at the start of any accrual period generally is equal to its issue price, increased by the accrued OID for each prior accrual period. The yield to maturity of a Note is the discount rate that, when used in computing the present value of all principal and interest payments to be made under the Note, produces an amount equal to the issue price of the Note. A U.S. holder may elect to treat all interest on a Note as OID and calculate the amount includible in gross income under the constant yield method described above. The election is to be made for the taxable year in which a U.S. holder acquired the Note and may not be revoked without the consent of the IRS. U.S. holders should consult their tax advisors about this election.

Foreign tax credit

A U.S. holder may be able to claim a credit (or, at such holder's election, a deduction in lieu of such credit) with respect to any non-U.S. withholding taxes deducted from a payment on the Notes in computing such holder's U.S. federal income tax liability. Interest income (and OID) on a Note generally will constitute foreign source income and generally will be considered "passive category income" in computing the foreign tax credit. There are significant complex limitations on a U.S. holder's ability to claim foreign tax credits. U.S. holders should consult their tax advisors regarding the creditability or deductibility of any withholding taxes.

Sale, exchange, retirement, redemption or other taxable disposition of Notes

Upon the sale, exchange, retirement, redemption or other taxable disposition of a Note, a U.S. holder generally will recognize gain or loss equal to the difference, if any, between the amount realized upon such disposition (less any amount equal to any accrued but unpaid stated interest, which will be taxable as stated interest income as discussed above to the extent not previously included in income by the U.S. holder) and such U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally will be the purchase price of such Note paid by such U.S. holder, increased by any OID accrued by such U.S. holder with respect to the Note.

Any gain or loss recognized upon the sale, exchange, retirement, redemption or other taxable disposition of a Note generally will be U.S. source capital gain or loss and generally will be long-term capital gain or loss if the U.S. holder held the Note for more than one year on the date of disposition. Long-term capital gains of non-corporate U.S. holders (including individuals) are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Information reporting and backup withholding

In general, payments of interest (and OID) on the Notes and the proceeds of the sale or other disposition (including a retirement or redemption) of a Note paid to a U.S. holder may be required to be reported to the IRS unless the U.S. holder properly establishes that it is a corporation or other exempt recipient. Backup withholding may apply to such payments if the U.S. holder fails to provide the applicable withholding agent with a taxpayer identification number or a certification that it is not subject to backup withholding. U.S. holders may be required to provide such certification on IRS Form W-9.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Tax return disclosure requirements

Individuals (and certain entities treated as individuals for this purpose) that own "specified foreign financial assets" (which includes debt of foreign entities) with an aggregate value in excess of certain thresholds generally are required to file an information report on IRS Form 8938 with respect to such assets with their tax returns. If a U.S. holder does not file a required IRS Form 8938, such holder may be subject to substantial penalties and the statute of limitations on the assessment and collection of all U.S. federal income taxes of such holder for the related tax year may not close before the date which is three years after the date on which such report is filed. The Notes may constitute specified foreign financial assets subject to these reporting requirements, unless the Notes are held in an account at certain financial institutions. Under certain circumstances, an entity may be treated as an individual for purposes of these rules.

U.S. holders are urged to consult their tax advisors regarding the application of the foregoing disclosure requirements to their ownership of the Notes, including the significant penalties for non-compliance.

Foreign Account Tax Compliance Act

Pursuant to Sections 1471 through 1474 of the Code (provisions commonly known as "**FATCA**") and subject to the proposed regulations discussed below, a "foreign financial institution" may be required to withhold U.S. tax on certain payments treated as attributable to certain U.S. source payments (so-called "**foreign passthru payments**"). Currently, the term "foreign passthru payment" is not defined and it is unclear whether or to what extent payments on the Notes would be considered foreign passthru payments, assuming the Company were treated as a foreign financial institution. If and when final regulations are published defining such term, the Notes will be considered "grandfathered" from FATCA because they were issued on or prior to the date that is six months after the date on which such final regulations are published, unless the Notes are materially modified after such date. Under proposed regulations, any FATCA withholding on foreign passthru payments on debt instruments that are not otherwise grandfathered would only apply to foreign passthru payments made on or after the date that is two years after the date on which final regulations are published in the Federal Register defining foreign passthru payments. Taxpayers generally may rely on these proposed regulations until final regulations are issued. The United Kingdom has entered into an intergovernmental agreement with the United States to implement FATCA in a manner that may alter the rules described herein. Holders should consult their tax advisors on how these rules may apply to their investment in the Notes. In the event any FATCA withholding is imposed with respect to any payments on the Notes, there will be no Additional Amounts payable to compensate for the withheld amount.

Certain United Kingdom tax considerations

The following is a general summary of current United Kingdom law and published HM Revenue & Customs ("**HMRC**") practice (which may not be binding on HMRC), both of which may be subject to change (sometimes with retrospective effect), relating only to the United Kingdom withholding tax treatment of payments of interest on the Notes, stamp tax considerations on the issue or transfer of the Notes and certain potential information reporting requirements in relation to the Notes. It does not purport to be a complete analysis of all U.K. tax considerations relating to the Notes. In particular, this summary does not deal with other United Kingdom tax consequences of acquiring, holding or disposing of the Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. It applies only to the position of persons who are the absolute beneficial owners of Notes, and some aspects may not apply to some classes of persons, such as dealers in securities.

This description does not purport to constitute legal or tax advice and does not describe all of the tax considerations that may be relevant to a prospective Noteholder. Prospective Noteholders who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisers.

Withholding tax on interest on the Notes

The Notes will constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007, as long as they carry a right to interest and are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 or are admitted to trading on a multilateral trading facility operated by an EEA regulated recognised stock exchange. The Exchange is a "recognised stock exchange." The Notes will satisfy this requirement if they are officially listed on the Official List of the Exchange in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the Exchange in accordance with the rules of the Authority. Provided that the Notes carry a right to interest and are and remain so listed and admitted to trading, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where the Company reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) at the time the payment is made that (a) the person beneficially entitled to the interest is a U.K. resident company or a non U.K. resident company that carries on a trade in the United Kingdom through a permanent establishment and the payment is one that the non U.K. resident company is required to bring into account when calculating its profits subject to U.K. corporation tax; or (b) the person to whom the payment is made is one of the further classes of bodies or persons, and meets any relevant conditions, set out in Sections 935-937 of the Income Tax Act 2007, provided that in either case HMRC has not given a direction, the effect of which is that the payment may not be made without that withholding or deduction.

In other cases, including in the event the Notes are not or cease to be listed on a "recognised stock exchange," an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%), subject to the availability of other reliefs under domestic law or pursuant to the provisions of an applicable double taxation treaty. Where an applicable double taxation treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a direction to the Company to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double taxation treaty).

Any premium payable on redemption (including any premium by reference to any original issue discount) may be treated as a payment of interest for United Kingdom tax purposes and may accordingly be subject to the withholding tax treatment described above.

Provision of information

The Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom by or through whom interest is paid or credited. The details provided to HMRC may, in certain cases, be passed on to the tax authorities of other jurisdictions.

The references to “interest” above are to “interest” as understood for the purposes of United Kingdom tax law. They do not take into account any different definition of “interest” or “principal” that may prevail under any other tax law or that may apply under the terms and conditions of the Notes or any related document.

Stamp duty and stamp duty reserve tax

No United Kingdom stamp duty or stamp duty reserve tax should be payable on the issue or transfer of the Notes provided in each case that (i) the interest on the Notes does not exceed a reasonable commercial return on the nominal amount of the capital and (ii) any right on repayment of the Notes to an amount which exceeds the nominal amount of the Notes is reasonably comparable with what is generally repayable (in respect of a similar nominal amount of capital) under the terms of issue of loan capital listed on the Official List of the London Stock Exchange.

Other tax considerations

Prospective Noteholders should consult their own tax advisers concerning the consequences, in their particular circumstances, under European Union directives and other measures, and under the laws of any other taxing jurisdiction, of the ownership of or any dealing in the Notes. Any such dealing would need to comply with the selling restrictions and securities laws generally.

Payments by a Guarantor

If a Guarantor makes any payments in respect of interest on the Notes (or other amounts due under the Notes other than a repayment of amounts subscribed for the Notes) it is possible that such payments may be subject to withholding tax at applicable rates subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. Such payments by a Guarantor may not be eligible for the exemptions described above.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement (the "**Purchase Agreement**") dated on or about the date of this Offering Memorandum by and among the Company, the Guarantors and the Initial Purchasers, we have agreed to sell to each Initial Purchaser, and each Initial Purchaser has agreed, severally and not jointly, to purchase from us, together with all other Initial Purchasers, Notes in the aggregate principal amount of $305.0 million.

Subject to the terms and conditions set forth in the Purchase Agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the notes sold under the Purchase Agreement if any of these Notes are purchased. If an Initial Purchaser defaults, the Purchase Agreement provides that the purchase commitments of the nondefaulting Initial Purchasers may be increased or the Purchase Agreement may be terminated.

The Initial Purchasers initially propose to offer the Notes for resale at the issue price that appears on the cover of this Offering Memorandum. After the initial offering, the Initial Purchasers may change the price at which the Notes are offered and any other selling terms at any time without notice. The Initial Purchasers may offer and sell the Notes through certain of their affiliates, including in respect of sales into the United States. To the extent that any Initial Purchaser that is not a U.S. registered broker-dealer intends to effect any sales of the Notes in the United States, it will do so through one or more U.S. registered broker-dealer affiliates. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

We have agreed to pay the Initial Purchasers certain customary fees for their services in connection with this offering and to reimburse them for certain out of pocket expenses.

The Purchase Agreement provides that we will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. We have agreed, subject to certain limited exceptions, that during the period from the date hereof through and including the date that is 90 days after the date hereof, neither we nor the Guarantors will, without the prior written consent of the Initial Purchasers (not to be unreasonably withheld or delayed), offer, sell, contract to sell, issue or otherwise dispose of, except as provided in the Purchase Agreement, any debt securities issued or guaranteed by the Company or any of the Guarantors that are (i) substantially similar to the Notes and (ii) are offered and sold pursuant to Rule 144A and/or Regulation S of the Securities Act (other than the Notes and Note Guarantees).

The Notes and the Note Guarantees have not been and will not be registered under the U.S. Securities Act and The Notes and the Note Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except to qualified institutional buyers in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Until 40 days after the later of (i) the commencement of the offering and (ii) the Issue Date of the Notes, an offer or sale of the Notes initially sold in reliance on Regulation S within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the Notes are restricted as described under "*Notice to investors*."

Each Initial Purchaser represents warrants and agrees that it:

- has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to us or the Guarantors; and

- has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by us or the Initial Purchaser that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the Offering of the Notes, the distribution of this Offering Memorandum and resale of the Notes. See "*Notice to investors*."

We and the Guarantors have also agreed that we will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(a)(2) of the U.S. Securities Act or the safe harbor of Rule 144A and Regulation S under the U.S. Securities Act to cease to be applicable to the offer and sale of the Notes.

The Notes are a new issue of securities for which there currently is no market. We will apply to list the Notes on the Official List of the Exchange, however, we cannot assure you that the Notes will be approved for listing or that such listing will be maintained.

The Initial Purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any market-making activity may be discontinued at any time at the sole discretion of the Initial Purchasers without notice. In addition, any such market-making activity will be subject to the limits imposed by the U.S. Exchange Act. Accordingly, we cannot assure you that any market for the Notes will develop, that it will be liquid if it does develop, or that you will be able to sell any Notes at a particular time or at a price which will be favorable to you. See "*Risk factors—Risks relating to the Notes and our structure—There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited*."

We expect that delivery of the Notes will be made against payment on the Notes on or about the date specified on the cover page of this Offering Memorandum, which will be nine business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Exchange Act) following the date of pricing of the Notes ("**T + 9**"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next six business days will be required, by virtue of the fact that the Notes initially will settle in nine business days, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own legal advisor.

In connection with the Offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any of the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Initial Purchasers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the Initial Purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates, including the Notes. The Initial Purchasers and their affiliates may receive allocations of the Notes (subject to customary closing conditions), which could affect future trading of the Notes. Certain of the Initial Purchasers are lenders and/or hold certain roles under our other outstanding indebtedness, including the RBL Facility. Certain of the Initial Purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

As described under "*Use of proceeds*," the net proceeds of this offering, together with the cash on balance sheet, will be used to redeem the Existing Senior Notes and the payment of fees, costs and expenses in connection with the Transactions. The Initial Purchasers or their respective affiliates may hold the Existing Senior Notes. To the extent an Initial Purchaser or one of its respective affiliates is a holder of the Existing Senior Notes, they may receive a portion of the proceeds of the offering in connection with the redemption thereof.

NOTICE TO INVESTORS

You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

The Notes and the Note Guarantees have not been and will not be registered under the U.S. Securities Act, or any state securities laws, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act and in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

We have not registered and will not register the Notes or the Note Guarantees under the U.S. Securities Act and, therefore, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, we are offering and selling the Notes to the Initial Purchasers for re-offer and resale only:

- in the United States to "qualified institutional buyers," commonly referred to as "**QIBs,**" as defined in Rule 144A in compliance with Rule 144A; and

- outside the United States to persons other than U.S. persons in offshore transactions in accordance with Regulation S.

We use the terms "offshore transaction," "**U.S. person**" and "**United States**" with the meanings given to them in Regulation S.

Each purchaser of Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us and the Initial Purchasers as follows:

(1) You understand and acknowledge that the Notes and the Note Guarantees have not been registered under the U.S. Securities Act or any other applicable securities laws and that the Notes are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other securities laws, including sales pursuant to Rule 144A under the U.S. Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraphs (4) and (5) below.

(2) You are not our "affiliate" (as defined in Rule 144 under the U.S. Securities Act) or acting on our behalf and that either:

(a) you are a QIB, within the meaning of Rule 144A under the U.S. Securities Act and are aware that any sale of these Notes to you will be made in reliance on Rule 144A under the U.S. Securities Act, and such acquisition will be for your own account or for the account of another QIB; or

(b) you are purchasing the Notes in an offshore transaction in accordance with Regulation S under the U.S. Securities Act and you are not a U.S. person (and are not purchasing for the account or benefit of a U.S. person) within the meaning of Regulation S under the U.S. Securities Act.

(3) You acknowledge that none of us, the Guarantors, or the Initial Purchasers, nor any person representing any of them, has made any representation to you with respect to us or the offer or sale of any of the Notes, other than the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that neither the Initial Purchasers nor any person representing the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this Offering Memorandum. You have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.

(4) You are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or any state securities laws, subject to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within your or their control and subject to your or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the U.S. Securities Act.

(5) You agree on your own behalf and on behalf of any investor account or accounts for which you are purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date (the "**Resale Restriction Termination Date**") that is one year (in the case of Rule 144A Notes) or 40 days (in the case of Regulation S Notes) after the later of the date of the original issue and the last date on which we or any of our affiliates were the owner of such Notes (or any predecessor thereto) only (i) to us, (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act, (iii) for so long as the Notes are eligible pursuant to Rule 144A under the U.S. Securities Act, to a person you reasonably believe is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A under the U.S. Securities Act, (iv) pursuant to offers and sales that occur outside the United States in compliance with Regulation S under the U.S. Securities Act or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within your or their control and to compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to our and the trustee's rights prior to any such offer, sale or transfer (I) pursuant to clause (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing in the Indenture is completed and delivered by the transferor to the Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

By acceptance of a Note, you will be deemed to have represented and agreed that (A) either (i) no portion of the assets used by you to acquire and hold the Notes or an interest therein constitutes assets of (a) any employee benefit plans that are subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), (b) plans, individual retirement accounts ("**IRAs**") and other arrangements that are subject to Section 4975 of the Code, (c) entities whose underlying assets are considered to include "plan assets" (within the meaning of 29 C.F.R. 2510.3-101, as modified by Section 3(42) of ERISA) of such employee benefit plans, plans, accounts or arrangements (each item described in clauses (a) through (c), an "**ERISA Plan**"), or (d) benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-US plans (as described in Section 4(b)(4) of ERISA) that are not subject to ERISA or Section 4975 of the Code but which may be subject to non-US, federal, state, or local laws or regulations ("**Similar Laws**") that are substantially similar to Section 406 of ERISA or Section 4975 of the Code (together with ERISA Plans, "**Plans**") or (ii) (a) the acquisition and holding by you of the Notes or an interest therein will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violation of any applicable Similar Laws, and (b) if a portion of the assets used by you to acquire and hold the Notes or an interest therein constitutes assets of an ERISA Plan, neither we, the Initial Purchasers, the Guarantors nor any of their respective affiliates (the "**Transaction Parties**") has acted as the ERISA Plan's fiduciary (within the meaning of ERISA or the Code), or has been relied on for advice, with respect to your decision to acquire and hold the Notes or an interest therein, and (B) you will not sell or otherwise transfer such Note or any interest therein otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its acquisition and holding of such Note or any interest therein.

Each purchaser acknowledges that, each Note will contain a legend substantially to the following effect:

THE FOLLOWING INFORMATION IS SUPPLIED SOLELY FOR U.S. FEDERAL INCOME TAX PURPOSES. THIS SECURITY WAS ISSUED WITH "ORIGINAL ISSUE DISCOUNT" ("OID") WITHIN THE MEANING OF SECTION 1273 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), AND THIS LEGEND IS REQUIRED BY SECTION 1275(c) OF THE CODE. HOLDERS MAY OBTAIN INFORMATION REGARDING THE AMOUNT OF ANY OID, THE ISSUE PRICE, THE ISSUE DATE AND THE YIELD TO MATURITY RELATING TO THE SECURITY BY CONTACTING THE ISSUER AT ENQUEST PLC, 5TH FLOOR, CUNARD HOUSE, 15 REGENT STREET, LONDON SW1Y 4LR, UNITED KINGDOM.

Each purchaser acknowledges that each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "**US SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "**QUALIFIED INSTITUTIONAL BUYER**" (AS DEFINED IN RULE 144A UNDER THE US SECURITIES ACT ("**RULE 144A**")) OR (B) IT IS A NON-US PERSON AND IS ACQUIRING THIS SECURITY IN AN "**OFFSHORE TRANSACTION**" PURSUANT TO RULE 904 OF REGULATION S UNDER THE US SECURITIES ACT ("**REGULATION S**"), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "**RESALE RESTRICTION TERMINATION DATE**") WHICH [IN THE CASE OF REGULATION S NOTES: IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE DATE ON WHICH THIS SECURITY WAS FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN RULE 902 OF REGULATION S)] [IN THE CASE OF THE RULE 144A NOTES: ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH NOTE)] ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE US SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "**QUALIFIED INSTITUTIONAL BUYER**" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFSHORE TRANSACTIONS TO NON-US PERSONS OCCURRING OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO

THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "**US PERSON,**" "**OFFSHORE TRANSACTION**" AND "**UNITED STATES**" HAVE THE MEANING GIVEN TO THEM BY REGULATION S.

If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

(6) You agree that you will give to each person to whom you transfer the Notes notice of any restrictions on the transfer of such Notes.

(7) You acknowledge that until 40 days after the commencement of the Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act.

(8) You acknowledge that the Registrar will not be required to accept for registration or transfer any Notes acquired by you except upon presentation of evidence satisfactory to us and the Registrar that the restrictions set forth therein have been complied with.

(9) You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by your purchase of the Notes is no longer accurate, you shall promptly notify us and the initial purchasers. If you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each such investor account and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

(10) You understand that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would result in a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth in this section of this Offering Memorandum and/or in the front of this Offering Memorandum under "*Notice to Certain Other Investors*" and "*Plan of distribution*."

(11) You confirm that you, or the investor account for which you act, is not an EEA retail investor. For the purposes of this paragraph, the expression "**EEA retail investor**" means a person who is one (or more) of the following: (i) a "retail client" as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a "qualified investor" as defined in the Prospectus Regulation.

(12) You confirm that you, or the investor account for which you act, is not a U.K. retail investor. For the purposes of this paragraph, the expression "**U.K. retail investor**" means a person who is one (or more) of the following: (i) a "retail client," as defined in point (8) of Article 2 of Regulation (EU) 2017/565 as amended and as it forms part of domestic law by virtue of the EUWA; (ii) a "customer" within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a "qualified investor" as defined in Article 2 of the U.K. Prospectus Regulation.

(13) You understand that: (i) the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any "**EEA retail investor**" (as defined in paragraph (11) above) in the EEA; (ii) no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to EEA retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation; (iii) the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any "**U.K. retail investor**" (as defined in paragraph (12) above) in the U.K.; and (iv) no key information document required by the U.K. PRIIPs Regulation for offering or selling the Notes or otherwise making them available to

U.K. retail investors in the U.K. has been prepared and therefore offering or selling the Notes or making them available to any U.K. retail investor in the U.K. may be unlawful under the U.K. PRIIPs Regulation.

(14) You understand that: (i) the Notes are not intended to be and should not be offered, sold, transferred or disposed of, whether directly or indirectly, to any person in Malaysia; and (ii) this Offering Memorandum or any other document or material relating to any Note should not be distributed, cause to be distributed or circulated in Malaysia.

LEGAL MATTERS

The validity of the Notes, the Note Guarantees and certain other legal matters are being passed upon for us by Latham & Watkins (London) LLP with respect to matters of U.S. federal and New York state law, and certain other legal matters are being passed upon for us by Latham & Watkins (London) LLP with respect to matters of English law. Certain legal matters will be passed upon for the Initial Purchasers by Cravath, Swaine & Moore LLP with respect to matters of U.S. federal and New York state law, and certain legal matters will be passed upon for the Initial Purchasers by Macfarlanes LLP with respect to matters of English law.

INDEPENDENT AUDITORS

Our Audited Group Financial Statements as of and for the year ended December 31, 2019 included in this Offering Memorandum have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing herein.

Our Audited Group Financial Statements as of December 31, 2020 included in this Offering Memorandum, have been audited by Deloitte LLP, independent auditors, as stated in their report which express an unqualified opinion on the financial statements and includes an explanatory paragraph referring to material uncertainty related to going concern.

Our Audited Group Financial Statements as of December 31, 2021, included in this Offering Memorandum, have been audited by Deloitte LLP, independent auditors, as stated in their report.

Deloitte LLP is registered to carry out audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales.

INDEPENDENT RESERVE AUDITORS

Estimates of our 1P and 2P Reserves as of December 31, 2019, 2020 and 2021 included in this Offering Memorandum were based in part upon reserve reports prepared by independent international energy advisory company, Gaffney, Cline & Associates Ltd. Estimates of 1P and 2P Reserves derived from the GaffneyCline Reports have been included in reliance on the authority of such firm as an expert in such matters. Conversion of gas reserves volumes from Bscf to MMboe has been made by the Company assuming a conversion rate of 5.8 Bscf to 1 MMboe of oil for production data and reserves.

AVAILABLE INFORMATION

Each purchaser of Notes from an Initial Purchaser will be furnished a copy of this Offering Memorandum and any related amendments or supplements to this Offering Memorandum. Each person receiving this Offering Memorandum and any related amendments or supplements to this Offering Memorandum acknowledges that:

(1) such person has been afforded an opportunity to request from us and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(3) except as provided pursuant to clause (1) above, no person has been authorized to give any information or to make any representation concerning the Notes or each Note Guarantee offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by either us or the Initial Purchasers.

For so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, unless we are then subject to Section 13 or 15(d) under the U.S. Exchange Act, make available to any holder or beneficial holder of a Note, or to any prospective purchaser of a Note designated by such holder or beneficial holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the U.S. Securities Act upon the written request of any such holder or beneficial owner. Any such request should be directed to EnQuest PLC, 5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom.

We are not subject to the periodic reporting and other information requirements of the U.S. Exchange Act. We are a listed company on the Official List of the London Stock Exchange using the code 'ENQ' and while we remain listed on the Official List of the London Stock Exchange, we must comply with the reporting requirements established by the Companies Act 2006, as amended, and the Disclosure & Transparency Rules of the United Kingdom Listing Authority. In addition to our ongoing reporting obligations under these regulations, we must send the United Kingdom Listing Authority our preliminary annual results and our annual financial report. We must also send our semi-annual financial reports, along with interim management statements. Pursuant to the indenture that will govern the Notes, we will agree to furnish periodic information to the holders of the Notes. See "*Description of Notes—Certain covenants—Reports*."

Furthermore, we are also subject to the reporting requirements established by the laws of Sweden. We are a listed company on the Official List of NASDAQ OMX Stockholm also using the code 'ENQ' and while we remain listed on the Official List of NASDAQ OMX Stockholm, we must comply with the report requirements established by Swedish disclosure regulation.

So long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market thereof, and the rules and regulations of such stock exchange so require, copies of the following documents will also be available for review during the normal business hours on any business day at the specified office of the Company:

- the organizational documents of the Company and the Guarantors;
- the most recent Audited Group Financial Statements published by the Company;
- the Indenture (which includes the Guarantees and form of the Notes); and
- the Guarantee Subordination Agreement.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are incorporated under the laws of England and Wales and the Guarantors are organized under the laws of England and Wales or in Scotland.

Most of our directors, officers and other executives are neither residents nor citizens of the United States. Furthermore, most of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, us or the Guarantors or to enforce against them, us or the Guarantors judgments of U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws despite the fact that, pursuant to the terms of the Indenture, we and the Guarantors have appointed, or will appoint, an agent for the service of process in New York.

England and Wales

The United States and England and Wales currently do not have a treaty between them providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be recognized or enforceable in England and Wales. In order to enforce any such U.S. judgment in England and Wales, fresh proceedings must first be initiated before a court of competent jurisdiction in England and Wales. In such an action, an English court would not generally reinvestigate the merits of the original matter decided by the U.S. court (subject to what is said below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defense to it). Summary judgment is a procedure by which the English court can dispose of all or part of a claim without proceeding to a full trial. Recognition and enforcement of a U.S. judgment by an English court in such an action may be conditional upon (among other things) the following:

- the U.S. court having had jurisdiction over the original proceedings according to English conflicts of laws principles and rules of English private international law (in other words, it does not matter that the U.S. court had jurisdiction according to its own law, but instead whether it had jurisdiction according to the rules of English private international law);
- the U.S. judgment not having been given in breach of a jurisdiction or arbitration clause;
- the U.S. judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it and being for a debt for a definite sum of money;
- the U.S. judgment not contravening English public policy or statute in England and Wales;
- the U.S. judgment not being for a sum payable in respect of taxes, or other charges of a like nature, or in respect of a penalty or fine, or otherwise involving the enforcement of a non-English penal or revenue law;
- the recognition and enforcement of the U.S. judgment not being restricted by the provisions of the Protection of Trading Interests Act 1980;
- the U.S. judgment not having been obtained by fraud or in breach of English principles of natural or substantial justice;
- there not having been a prior inconsistent, determinative or conflicting judgment of the courts of England and Wales or another court whose judgment is entitled to recognition in England and Wales;
- the U.S. judgment not having been wholly satisfied or not being enforceable by execution in the U.S.;
- the party seeking enforcement providing security for costs, if ordered to do so by the English court; and
- the English enforcement proceedings being commenced within the relevant limitation period.

Subject to the foregoing, investors may be able to enforce in England and Wales judgments in civil and commercial matters that have been obtained from U.S. federal or state courts. However, we cannot assure you that those judgments will be recognized or enforceable in England and Wales. In addition, it is questionable whether an English court would accept jurisdiction and impose civil liability if proceedings were commenced in England and Wales, instead of the United States, in an original action predicated solely upon U.S. federal securities laws. Further, it may not be possible to obtain a judgment in England and Wales or to enforce the judgment if the judgment debtor is subject to any insolvency or similar proceedings, or if the judgment debtor has any setoff or counterclaim against the judgment creditor. Finally, note that, in any enforcement proceedings, the judgment debtor may raise any counterclaim that could have been brought if the action had been originally brought in England and Wales unless the subject of the counterclaim was in issue and denied in the U.S. proceedings.

Scotland

The United States and Scotland currently do not have a treaty between them providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be recognized or enforceable in Scotland. In order to enforce any such U.S. judgment in Scotland, fresh proceedings must first be initiated before a court of competent jurisdiction in Scotland. In such an action, a Scottish court would not generally reinvestigate the merits of the original matter decided by the U.S. court (subject to what is said below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defense to it). Summary judgment is a procedure by which the Scottish court can dispose of all or part of a claim without proceeding to a full trial. Recognition and enforcement of a U.S. judgment by a Scottish court in such an action may be conditional upon (among other things) the following:

- the U.S. court having had jurisdiction over the original proceedings according to Scottish conflicts of laws principles and rules Scottish private international law (in other words, it does not matter that the U.S. court had jurisdiction according to its own law, but instead whether it had jurisdiction according to the rules of Scottish private international law);

- the U.S. judgment not having been given in breach of a jurisdiction or arbitration clause;

- the U.S. judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it and being for a debt for a definite sum of money;

- the U.S. judgment not contravening Scottish public policy, the European Convention on Human Rights or the Human Rights Act 1998 (or any subordinate legislation made thereunder, to the extent applicable);

- the U.S. judgment not being for a sum payable in respect of taxes, or other charges of a like nature, or in respect of a penalty or fine, or otherwise involving the enforcement of a non-Scottish penal or revenue law;

- the U.S. judgment not having been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damages sustained and not being otherwise in breach of the Protection of Trading Interests Act 1980;

- the U.S. judgment not having been obtained by fraud or in breach of Scottish principles of natural or substantial justice;

- there not having been a prior inconsistent, determinative or conflicting judgment of the courts of Scotland or another court whose judgment is entitled to recognition in Scotland;

- the U.S. judgment not having been wholly satisfied or not being enforceable by execution in the U.S.;

- the party seeking enforcement providing security for costs, if ordered to do so by the Scottish court; and

- the Scottish enforcement proceedings being commenced within six years from the date of the U.S. judgment the relevant limitation period.

Subject to the foregoing, and to the specific matters in relation to Scotland set out below, investors may be able to enforce in Scotland judgments in civil and commercial matters that have been obtained from U.S. federal or state courts. However, we cannot assure you that those judgments will be recognized or enforceable in Scotland. In addition, it is questionable whether a Scottish court would accept jurisdiction and impose civil liability if proceedings were commenced in Scotland, instead of the United States, in an original action predicated solely upon U.S. federal securities laws. Further, it may not be possible to obtain a judgment in Scotland or to enforce the judgment if the judgment debtor is subject to any insolvency or similar proceedings, or if the judgment debtor has any setoff or counterclaim against the judgment creditor. Finally, note that, in any enforcement proceedings, the judgment debtor may raise any counterclaim that could have been brought if the action had been originally brought in Scotland unless the subject of the counterclaim was in issue and denied in the U.S. proceedings.

In relation to Scotland:

- The process for obtaining such enforcement in Scotland is through an action raised in the Court of Session (the higher civil court of first instance in Scotland) for a "decree conform" in the form of an ordinary action for payment, requesting the Court to use its authority to enforce the US Judgment. The parties to the action must be the same parties as those in the US action. The pursuer ("plaintiff") has the onus of proving the foreign decree. Once established as ex facie (on the face of it) proper, the onus is on the defender ("defendant") to challenge on the basis of a number of limited reasons as follows -

  - the foreign court did not have jurisdiction; and this question would require to be determined by following the Scottish rules of international private law;

  - there is a substantial unfairness or irregularity in proceedings (for instance, where inadequate notice has been given to the defender, or where a fraud has been practised on the foreign court);

  - the foreign judgment is penal or discriminatory in nature. Such a judgment might be considered to be discriminatory if it infringes a fundamental public policy aspect of Scots law. However, such public policy questions relate to questions of moral or social principle rather than strictly legal principle. So the fact that a foreign judgment gives effect to a legal principle unknown to Scots law is not sufficient for this purpose;

  - the foreign judgment is time barred in the original jurisdiction, or is not for a definite amount, or is not final (for instance, still open to recall), or no longer remains a liability (for instance, because it has been satisfied in full);

  - proceedings were brought contrary to an agreement for settlement by some other means (section 32 of the Civil Jurisdiction and Judgment Act 1982);

- It is a defense that a choice of jurisdiction agreement existed between the parties specifying a jurisdiction other than the one whose decree is sought to be enforced, but this applies only if the defender did not submit to the jurisdiction of the court of origin. It might be envisaged that in the United States, enforcement steps are taken against the company in insolvency, subject of course to United States jurisdictional rules which may or may not enable it to do so. In this situation, a United States insolvency order may be recognized in Scotland, although there are no direct mutual recognition provisions.

- Important further points to note include the following:

- claims may become barred under the Prescription and Limitation (Scotland) Act 1973 or may be or become subject to defences of retention, compensation, set-off or counter claim;

- in proceedings in the Scottish courts, matters of U.S. law or any other system of law other than Scots law affecting the rights and duties of the parties under the documents which are governed by U.S. law or any other system of law other than Scots law would be required to be established as a matter of evidence and in the absence of such establishment the Scottish courts would apply Scots law;

- insolvency proceedings in respect of a Scottish Guarantor would generally be subject to the exclusive jurisdiction of the Court of Session or the Sheriff Court (where the "centre of main interests" of the Scottish Guarantor is situated in the United Kingdom), though territorial proceedings might be raised against the Scottish Guarantor in respect of assets in another jurisdiction.

Malaysia

Commercial disputes in Malaysia may be resolved by way of court proceedings, arbitration, or mediation. The most common method for dispute resolution in Malaysia is court proceedings. Arbitration proceedings and mediation proceedings may be initiated if all parties to the dispute agree to do so. Large commercial disputes are usually initiated in the High Court of Malaya which has a monetary jurisdiction of MYR1 million and above for civil cases. The Malaysian court system is broadly adversarial. The judge plays a limited role in legal proceedings and mainly act as a referee between two opposing parties. However, since the enactment of the Rules of Court 2012 ("ROC") which confer the court a variety of procedural powers, such as striking out cases or imposing penalty costs in situations of non-compliance with the court's directions, the courts are increasingly taking on the role of a case manager. However, a judge cannot compel parties to pursue alternative dispute resolution, unless the parties agree or have agreed to the same. The standard of proof for a claimant to successfully prove his case is on a balance of probabilities.

Service of foreign proceedings in Malaysia is governed by Order 11 of the ROC. Proceedings must be served personally or by AR to the registered postal address of the defendant. This is exempted in the following circumstances:

- Where the defendant's solicitors accept the writ on behalf of the defendant.
- Where the defendant has entered an appearance (that is, that he or she has filed a memorandum of appearance in court, to acknowledge the claim that has been initiated against him or her and to indicate that he or she will be defending the claim).

Personal service is effected by leaving a copy of the document with the person to be served (*Order 62 rule 3, ROC*). However, the service of the document and its contents should be made known to the defendant, otherwise it might be considered ineffective (*Banque Russe v Clark 1894 WN 203*).

Service of documents can be effected on a corporation, by either:

- Leaving a copy of it at the registered office of the corporation.
- Sending it by registered post to the principal office.
- Handing a copy of it to the secretary, director or any other officer of the corporation.

If the defendant's location cannot be traced or multiple service attempts have failed, the claimant can apply for an order for substituted service (*Order 62 rule 5, ROC*). The claimant however, should make at least two visits to the defendant during reasonable hours and deliver an appointment letter which states the time of the next visit and give the defendant an opportunity to make a different appointment (*practice note 1/1968*). Once the order has been obtained, the court can direct the claimant to take necessary steps to bring the news of the proceedings to the defendant's attention by way of either:

- Advertisement in a local newspaper.
- Posting a copy of the writ on the court premises.

If foreign documents required for service are not in Malay or English, a certified true translation to Malay or English will be required.

In regard to enforcement of foreign judgment, a foreign judgment must be registered in the Malaysian courts before it can be enforceable. The requirements for registration are found in section 4 of the Reciprocal Enforcement of Judgments Act 1957 ("**REJA**"). One of the requirements for registration of foreign judgments is that the foreign judgment in question must be from a reciprocating country as provided for in the list of countries in REJA. A foreign judgment from any country not registered under REJA must be enforced by commencing fresh proceedings. This requires proceedings to be brought in a Malaysian court and for a domestic judgment to be obtained in which the claimant must provide *prima facie* evidence of a claim against the respondent. If the foreign judgment is from a reciprocating country, an application can then be made to register the foreign judgment. The foreign judgment creditor must lodge an originating summons supported by an affidavit. In practice, the initial hearing date is sought on an *ex parte* basis. The affidavit in support must exhibit a duly verified, certified or authenticated copy of the foreign judgment. If the judgment is not in English, a translation certified by a notary public must also be filed. The affidavit must comply with certain formalities, as follows:

- State the name, trade or business and usual or last known address of the judgment creditor and judgment debtor.
- State, to the best of the information or belief of the deponent, that:
    - the judgment creditor is entitled to enforce the judgment;
    - the judgment has not been satisfied;
    - the judgment does not fall within any of the cases in which the judgment cannot be ordered to be registered under REJA;
    - as at the date of the application the judgment can be enforced by execution in the country of the original court; and
    - if registered, the registration would not be liable to be set aside under REJA.

(*Order 67 rule 3, ROC.*)

On the hearing date, the court will, if the application appears on its face to comply with REJA, grant leave to register the same. The order for leave must state the period within which an application can be made to set aside the registration, and that execution of the judgment will not be issued until the expiration of that period. Typically, the court will grant 14 to 21 days for such an application to be made. The order for leave to register the foreign judgment must be served on the judgment debtor with a notice of registration. The person serving the notice of registration must endorse the notice within three days after service (which is the date on which the notice was served). If an application to set aside the registration of the judgment is filed by the judgment debtor, the court will fix a hearing date for the application. In such instance, execution of the judgment cannot be levied until after such an application has been finally determined. Once a foreign judgment is registered or a domestic judgment is obtained, the foreign judgment can be enforced in the same way as a domestic judgment. There are various ways a judgment can be enforced such as by commencing winding-up or bankruptcy proceeding, garnishee proceedings or execution of a writ of seizure and sale. Under common law, a judgment creditor can enforce a foreign judgment in the Malaysian courts by treating the judgment as a statement of debt that is due. The judgment creditor must show that the court that issued the foreign judgment had jurisdiction over the judgment debtor, the judgment was final and that the judgment sum is a liquid sum if the claim is made in persona.

CERTAIN INSOLVENCY LAW CONSIDERATIONS

The following is a brief description of certain insolvency law considerations in the jurisdictions in which Note Guarantees are initially being provided. The descriptions below do not purport to be complete or discuss all of the limitations or considerations that may affect the Notes or the Note Guarantees. Proceedings of bankruptcy, insolvency or a similar event could be initiated in any of these jurisdictions and in the jurisdiction of organization of a future Guarantor of the Notes. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes and the Note Guarantees. Prospective investors in the Notes should consult their own legal advisors with respect to such limitations and considerations. See "*Risk factors—Risks relating to the Notes and our structure—The insolvency laws of England and Wales, Scotland and Malaysia may not be as favorable to you as insolvency laws of jurisdictions with which you may be familiar and may preclude noteholders from recovering payments due on the Notes.*"

England and Wales

Applicable legal framework and jurisdiction of the English courts

While the U.K was a member state of the EU, insolvency processes opened in the U.K. were subject to both EU and applicable U.K. domestic legislation. Following the U.K.'s departure from the EU on January 31, 2020 and the expiry of the subsequent transition period (the "**Transition Period**") on December 31, 2020, in accordance with the European Union (Withdrawal) Act 2018 (as amended by the European Union (Withdrawal Agreement) Act 2020), EU law as directly applicable in the U.K. at the end of the Transition Period (subject to certain exceptions) was transposed into U.K. domestic law subject to significant amendments. The Insolvency (Amendment) (EU Exit) Regulations 2019 (SI 2019/146) (as amended) effected key amendments to both EU insolvency laws previously directly applicable in the U.K., including the EU Insolvency Regulation, and domestic insolvency laws, including the Insolvency Act 1986 (the "**Insolvency Act**"), the Insolvency (England and Wales) Rules 2016 (SI 2016/1024) (the "**Insolvency Rules**") and the Cross-Border Insolvency Regulations 2006 (SI 2006/1030) (the "**Cross-Border Insolvency Regulations**").

Unless insolvency proceedings or certain related proceedings were opened prior to the expiry of the Transition Period, in which case the unmodified EU Insolvency Regulation and related EU insolvency legislation govern the proceedings, insolvency proceedings with respect to English companies would likely proceed under, and be governed by, English insolvency laws in force at the time of commencement of the relevant proceedings. However, to the extent that an English company has its COMI in a member state of the EU insolvency proceedings could, pursuant to the EU Insolvency Regulation and subject to certain exceptions, be opened in the relevant EU member state and be subject to the laws of that EU member state. In addition, pursuant to the Cross-Border Insolvency Regulations, certain foreign courts may have jurisdiction to oversee the insolvency proceedings of any English company which has its COMI or an "establishment" (being a place of operations where it carries out a non-transitory economic activity with human means and assets or services) in such foreign jurisdiction.

Although the scope of the English courts' jurisdiction varies for the different insolvency proceedings available in England and Wales, English courts generally have jurisdiction to open insolvency proceedings in respect of any company which has its COMI in the UK or has its COMI in an EU member state (other than Denmark) and an "establishment" in the UK (also defined as being a place of operations where it carries out a non-transitory economic activity with human means and assets or services). While this allows English courts to assume jurisdiction over certain foreign companies in respect of certain insolvency proceedings, the efficacy of such proceedings will significantly depend on the likelihood and extent of subsequent recognition of such proceedings in relevant other jurisdictions.

English insolvency law is different to the laws of the United States and other jurisdictions with which investors may be familiar. In the event that an English Obligor experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

English insolvency laws and other limitations could limit the enforceability of a Guarantee against an English Obligor.

The following is a brief description of certain aspects of English insolvency law relating to certain limitations on English guarantees. The application of these laws could adversely affect investors and their ability to enforce their rights under the English Guarantees and therefore may limit the amounts that investors may receive in an insolvency of an English Obligor.

In addition, in the section headed "Scotland" below, there is a description of certain aspects of Scottish insolvency law that would be applicable in respect of any Guarantor incorporated in Scotland.

Administration

The Insolvency Act (as amended) and the onshored version of the EU Insolvency Regulation empower English courts to make an administration order in respect of a company incorporated in England, Wales, Scotland or an EEA state, a company not incorporated in an EEA state but with its COMI in a member state of the EU (other than Denmark), a company (wherever incorporated) having its COMI in the UK or a company (wherever incorporated) with its COMI in a member state of the EU and an "establishment" in the UK. In each case, and subject to specific conditions, an administration order can be made if the court is satisfied that the relevant company is or is likely to become "unable to pay its debts" and that the administration order is reasonably likely to achieve the purpose of administration. A company is unable to pay its debts if it is insolvent on a "cash flow" basis (unable to pay its debts as they fall due) or if it is insolvent on a "balance sheet" basis (the value of the company's assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities), as per Section 123 of the Insolvency Act. Such insolvency is presumed if, among other matters, the company fails either to satisfy a creditor's statutory demand for a debt exceeding £750 or to satisfy in full or in part a judgment debt (or similar court order). Without limitation and subject to specific conditions, an English company, the directors of such company or the holder of a qualifying floating charge, where the floating charge has become enforceable, may also appoint an administrator out of court, and different procedures apply according to the identity of the appointer. The purpose of an administration is comprised of three parts that must be looked at successively: rescuing the company as a going concern or, if that is not reasonably practicable, achieving a better result for the company's creditors as a whole than would be likely upon immediate liquidation or, if neither of those objectives is reasonably practicable, and the interests of the creditors as a whole are not unnecessarily harmed thereby, realizing property to make a distribution to one or more secured or preferential creditors. The order of priority which applies to any distribution to creditors is set out in "*—Priority on insolvency*" below.

Certain rights of creditors, including secured creditors, are curtailed in an administration. Upon the appointment of an administrator, no step may be taken to enforce security over the company's property except with the consent of the administrator or permission of the court. The same requirements for consent or permission apply to the institution or continuation of legal process (including legal proceedings, execution, distress and diligence) against the company or property of the company. In either case, a court will consider discretionary factors in determining any application for leave in light of the hierarchy of statutory objectives of administration described above.

Accordingly, if any Guarantor incorporated in England were to enter into administration, the Notes and the Note Guarantees could not be enforced while the relevant company was in administration without the permission of the court or consent of the administrator. There can be no assurance that the Trustee would obtain this permission of the court or consent of the administrator.

In addition, an administrator is given wide powers to conduct the business and, subject to certain requirements under the Insolvency Act, dispose of the property of a company in administration.

Administrative receivership

If a company grants a "qualifying floating charge" to a party for the purposes of English insolvency law, that party will be able to appoint an administrative receiver or an administrator out of court and, in the case of the ability to appoint an administrative receiver, the qualifying floating charge must, unless the security document pre-dates September 15, 2003 in England, fall within one of the exceptions under the Insolvency Act as amended by the Enterprise Act 2002 in England to the prohibition on the appointment of administrative receivers. In order to constitute a qualifying floating charge, the floating charge must be created by an instrument which (a) states that the relevant statutory provision applies to it; (b) purports to empower the holder to appoint an administrator of the company or (c) purports to empower the holder to appoint an administrative receiver within the meaning given by Section 29(2) of the Insolvency Act in England. A party will be the holder of a qualifying floating charge if such floating charge security, together (if necessary) with other forms of security, relates to the whole or substantially the whole of the property of the relevant company and at least one such security interest is a qualifying floating charge. The most relevant exception to the prohibition on the appointment of an administrative receiver is the exception relating to "capital market arrangements" (as defined in the Insolvency Act), which may apply if the issue of the Notes creates a debt of at least £50.0 million for the relevant company during the life of the arrangement and the arrangement involves the issue of a "capital market investment" (which is defined in the Insolvency Act, and includes rated, listed or traded debt instruments, and debt instruments designed to be rated, listed or traded).

If an administrative receiver has been appointed, an administrator can only be appointed by the court (and not by the company, its directors or the holder of a qualifying charge using the out of court procedure) and then only if the person who appointed the administrative receiver consents or the court considers that the security pursuant to which the administrative receiver was appointed is capable of challenge as a transaction at an undervalue, a preference or an invalid floating charge. If an administrator is appointed, any administrative receiver will vacate office, and any receiver of part of the company's property must resign if required to do so by the administrator.

Liquidation/winding up

Liquidation is a company dissolution procedure under which the assets of a company are realized and distributed by the liquidator to creditors and (if applicable) members in the statutory order of priority prescribed by the Insolvency Act. See "*—Priority on insolvency*." There are two forms of winding up: (i) compulsory liquidation, by order of the court; and (ii) members' voluntary liquidation or creditors' voluntary liquidation, in each case by resolution of the company's members. The difference between the two voluntary proceedings is the solvency of the company in question; in members' voluntary liquidation, the directors of the company swear a statutory declaration as to the company's solvency over the following 12 months whereas the primary ground for the creditors' voluntary liquidation of an insolvent company is that it is unable to pay its debts (as defined in Section 123 of the Insolvency Act – see "Administration" above). Note that while a creditors' voluntary liquidation (other than as an exit from administration) is initiated by resolution of the members, not the creditors, once in place the process is subject to some degree of control by the creditors. Whereas compulsory liquidation and creditors' voluntary liquidation proceedings are available to foreign companies with sufficient nexus to the UK in addition to companies within the English courts' general jurisdiction, members' voluntary liquidation proceedings are only available to companies registered in England, Wales or Scotland.

The effect of a compulsory winding up differs in a number of respects from that of a voluntary winding up. In a compulsory winding up, under Section 127 of the Insolvency Act, any disposition of the relevant company's property made after the commencement of the winding up is, unless sanctioned by the court, void. Subject to certain exceptions, when an order is made for the winding up of a company by the court, it is deemed to have commenced from the time of the presentation of the winding up petition. Once a winding up order is made by the court, a stay of all proceedings against the company will be imposed. No action or proceeding may be continued or commenced against the company without permission of the court although there is no freeze on enforcement of security.

In the context of a voluntary winding up, however, there is no equivalent to the retrospective effect of a winding up order; the winding up commences on the passing of the resolution to wind up. As a result, there is no equivalent of Section 127 of the Insolvency Act. There is also no automatic stay of proceedings in the case of a voluntary winding up—it is for the liquidator, or any creditor or contributory of the company, to apply for a stay. As with a compulsory liquidation, this is important because it means secured creditors for example can go ahead and enforce their security.

A liquidator has the power to bring or defend legal proceedings on behalf of the company, to carry on the business of the company as far as it is necessary for its beneficial winding up, to sell the company's property and execute documents in the name of the company and to challenge antecedent transactions.

In light of the coronavirus pandemic, legislation was introduced to restrict temporarily the ability of creditors to present winding-up petitions and of courts to grant winding-up orders. These temporary measures (a) raised the threshold upon which a winding up petition may be presented from £750 to £10,000; (b) allowed a creditor to present a winding up petition only after expiry of a 21 day period during which the debtor had failed to provide a proposal for repayment satisfactory to the creditor; and (c) prevented landlords petitioning to wind up tenants for unpaid rent arrears arising as a result of coronavirus. The measures expired without renewal on 31 March 2022.

Priority on insolvency

With the exception of the Prescribed Part (as defined below), distributions generally cannot be made to a class of creditors until the claims of the creditors in a prior ranking class have been paid in full. Unless creditors have agreed otherwise, distributions are made on a *pari passu* basis, that is, the assets are distributed in proportion to the debts due to each creditor within a class.

Contractual setting-off arrangements entered into after a company enters liquidation or administration are only respected to the extent they fall within the definition of "mutual dealing" as applied by the mandatory insolvency set-off regime. This regime sees an account being taken of what is due from each party to the other in respect of their mutual dealings, and only the resulting net balance is either provable by the creditor in the administration or liquidation of the company (if amounts remain due to the creditor) or, conversely, is payable by the creditor to the company (if amounts remain due to the company).

The general priority on insolvency is as follows (in descending order of priority):

- First ranking: holders of fixed charge security but only to the extent the value of the secured assets covers that indebtedness;

- Second ranking: moratorium debts and priority pre-moratorium debts in respect of a moratorium under Part A1 of the U.K. Insolvency Act. Where a company goes into administration, or proceedings for the winding-up of a company are begun, within 12 weeks of the end of a moratorium under Part A1 of the U.K. Insolvency Act, certain categories of debt must be paid in priority of all other claims (though this does not affect the rights or ranking in liquidation or administration, of creditors holding fixed charges, nor does it apply against any charge created or otherwise arising under a financial collateral arrangement within the meaning of the Financial Collateral Arrangements (No. 2) Regulations 2003). Moratorium debts are any debt or liability that falls due during or after the Part A1 moratorium by reason of an obligation incurred during it. Priority pre-moratorium debts comprises the following debts or liabilities where the company becomes subject to them before or while the moratorium is in force due to an obligation incurred before the moratorium comes into force and relate to: (i) the monitor's remuneration or expenses; (ii) payment for goods or services supplied during the moratorium; (iii) rent in respect of a period during the moratorium; (iv) wages or salary arising under a contract of employment, so far as relating to a period of employment before or during the moratorium; (v) liability to make a redundancy payment that fell due before or during the moratorium; and (vi) debt due under a contract or other instrument involving financial services that fell due before or during the moratorium (unless, broadly, it fell due only because of the use or operation of acceleration provisions in the relevant arrangements that were triggered in the run up to, or during, the moratorium);

- Third ranking: expenses of the insolvent estate (there are statutory provisions setting out the order of priority in which expenses are paid);

- Fourth ranking: ordinary and secondary preferential creditors.

    - Ordinary preferential debts include (but are not limited to) debts owed by the insolvent company in relation to: (i) contributions to occupational and state pension schemes; (ii) wages and salaries of employees for work done in the four months before the insolvency date, up to a maximum of £800 per person; (iii) holiday pay due to any employee whose contract has been terminated, whether the termination takes place before or after the insolvency date; and (iv) bank and building deposits eligible for compensation under the Financial Services Compensation Scheme ("**FSCS**") up to the statutory limit. As between one another, ordinary preferential debts rank equally.

    - Secondary preferential debts rank for payment after the discharge of the ordinary preferential debts. Such secondary preferential debts include: (a) bank and building deposits eligible for compensation under the FSCS to the extent that claims exceed the statutory limit and (b) claims by HMRC for taxes including VAT, PAYE income tax, employee NI contributions and Construction Industry Scheme deductions which are held by the company on behalf of employees and customers but excluding corporation tax and employers' NI contributions. As between one another, secondary preferential debts rank equally;

- Fifth ranking: holders of floating charge security, according to the priority of their security. This would include any floating charge that was stated to be a fixed charge in the document that created it but which, on a proper interpretation, was rendered a floating charge. However, before distributing asset realizations to the holders of floating charges, the Prescribed Part (as defined below) must, subject to certain exceptions, be set aside for distribution to unsecured creditors;

- Sixth ranking:

  - firstly, provable debts of unsecured creditors and any secured creditor to the extent of any unsecured shortfall, in each case including accrued and unpaid interest on those debts up to the date of commencement of the relevant insolvency proceedings. To pay the secured creditors any unsecured shortfall, the insolvency officeholder can only use realizations from unsecured assets, as secured creditors are not entitled to any distribution from the Prescribed Part unless the Prescribed Part is sufficient to pay out all unsecured creditors or the secured creditor elects to surrender its security;

  - secondly, interest on the company's unsubordinated debts (at the higher of the applicable contractual rate and the official rate) in respect of any period after the commencement of liquidation, or after the commencement of any administration which either preceded such liquidation or which had been converted into a distributing administration. However, in the case of interest accruing on amounts due under the Notes or the Note Guarantees, such interest due to the Noteholders may, if there are sufficient realizations from the secured assets, be discharged out of such security recoveries; and

  - thirdly, non-provable liabilities, being liabilities that do not fall within any of the categories above and therefore are only recovered in the (unusual) event that all categories above are fully paid. This does not include currency conversion claims; and

- Seventh ranking: shareholders. If after the repayment of all unsecured creditors in full, any remaining funds exist, these will be distributed to the shareholders of the insolvent company.

Subordinated creditors are ranked according to the terms of the subordination language in the relevant documentation.

An insolvency practitioner of the company (e.g. administrator, administrative receiver or liquidator) will generally be required to ring-fence a certain percentage of the proceeds of enforcement of floating charge security for the benefit of unsecured creditors (after making full provision for preferential creditors and expenses out of floating charge realizations) (the "**Prescribed Part**"). This ring-fence applies to (a) 50% of the first £10,000 of the company's net property and (b) 20% of the remainder of the company's net property over £10,000, with a maximum aggregate cap of £800,000 (except where the company's net property is available to be distributed to the holder of a first-ranking floating charge created before 6 April 2020, in which case the maximum aggregate cap is £600,000). The Prescribed Part must be made available to unsecured creditors unless the cost of doing so would be disproportionate to the resulting benefit to creditors.

Avoidance of transactions

There are circumstances under English insolvency law in which the granting by an English company of guarantees can be challenged. In most cases, this will only arise if the company is placed into administration or liquidation within a specified period after the granting of the guarantee. Therefore, if during the specified period an administrator or liquidator is appointed to an English company, the administrator or liquidator may challenge the validity of the guarantee given by such company.

The Company cannot be certain that, in the event that the onset of an English company's insolvency (as described below) is within any of the requisite time periods, the grant of a guarantee in respect of the Notes would not be challenged or that a court would uphold the transaction as valid.

The potential grounds for challenge available under the English insolvency legislation that may apply to any guarantee granted by an English company include, without limitation, the following described below.

Avoidance of floating charges

Under English insolvency law, a floating charge granted by a guarantor is invalid if (i) the floating charge was given in exchange only for prior consideration; (ii) the floating charge was made at a relevant time that is one year before the onset of insolvency (where the beneficiary is not a connected person) or two years before the onset of insolvency (where the beneficiary is a connected person); and (iii) at the time the floating charge was granted, the guarantor was unable to pay its debts or became unable to pay its debts as a consequence of the charge (unless the charge was created in favour of a then connected person, in which case, there is no insolvency requirement). An administrator or liquidator (as applicable) does not need to apply to court for an order declaring that a floating charge is invalid by operation of law. However, this provision does not apply to any charge created or otherwise arising under a "security financial collateral arrangement" under the Financial Collateral Arrangements (No. 2) Regulations 2003.

Transactions at an undervalue

Under English insolvency law, a liquidator or administrator could apply to the court for an order to set aside a guarantee (or grant other relief) where such guarantee constituted a transaction at an undervalue.

A transaction will only be a transaction at an undervalue if, at the time of the transaction or as a consequence of the transaction, the company is unable to pay its debts or becomes unable to pay its debts (as defined in Section 123 of the Insolvency Act). The transaction can be challenged if the onset of the company's insolvency (as described below) is within a period of two years from the date such company grants the guarantee. However, a court shall not make an order if it is satisfied that a company entered into the transaction in good faith for the purpose of carrying on its business and at the time it did so there were reasonable grounds for believing the transaction would benefit such company. In any proceedings, it is for the administrator or liquidator to demonstrate that the company was unable to pay its debts except where the relevant transaction at an undervalue was made with a connected person (as described below), in which case there is a presumption that the company was insolvent at the time unless it can be shown otherwise by the connected person. If the court determines that the transaction was a transaction at an undervalue, the court shall make such order as it thinks fit to restore the company to the position it would have been in had it not entered into the transaction.

We believe that the Notes will not be issued on terms which would amount to a transaction at an undervalue, that this Offering is in good faith for the purposes of carrying on our business and that there are reasonable grounds for believing that the transaction will benefit us. However, there can be no assurance that the issuance of the Notes will not be challenged by a liquidator or administrator or that a court would support our analysis.

Similarly, an English liquidator or administrator of any Guarantor incorporated in England could apply to the court to unwind the issue of its Guarantee if such liquidator or administrator believed that the issue of such Guarantee constituted a transaction at an undervalue. The analysis of such a claim would generally be the same as set out above in relation to our issue of the Notes. We believe that each Guarantee will not be a transaction at an undervalue and that each Guarantee will be provided in good faith for the purposes of carrying on the business of each Guarantor incorporated in England and its subsidiaries and that there are reasonable grounds for believing that the transactions will benefit each such Guarantor. However, there can be no assurance that the provision of the Note Guarantees will not be challenged by a liquidator or administrator or that a court would support our analysis.

Preference

Under English insolvency law, a liquidator or administrator could apply to the court for an order to set aside a guarantee (or grant other relief) where such guarantee constituted a preference.

A transaction will only be a preference if, at the time of the transaction or in consequence of the transaction, the company is unable to pay its debts or becomes unable to pay its debts (as defined in Section 123 of the Insolvency Act). The transaction can be challenged if the company enters into insolvency within a period of six months (if the beneficiary of the guarantee is not a connected person) or two years (if the beneficiary is a connected person, except where such beneficiary is a connected person by reason only of being the company's employee) from the date the company grants the guarantee. A transaction may constitute a preference if a transaction has the effect of putting a creditor of the company (or a surety or guarantor of any of the company's debts or liabilities) in a better position (in the event of the company going into insolvent liquidation) than such creditor, guarantor or surety would otherwise have been in had that transaction not been entered into. However, a court shall not make an order unless the company which entered into the transaction was influenced by a desire to produce a preferential position in relation to that person when taking their decision. This provision of English insolvency law may affect transactions entered into or payments made by any of the Guarantors during the relevant period prior to the Guarantor's liquidation or administration.

In any proceedings, it is for the administrator or liquidator to demonstrate that the company was unable to pay its debts at the relevant time and that there was such desire to prefer the relevant creditor. If, however, the beneficiary of the transaction was a connected person (except where such beneficiary is a connected person by reason only of being the company's employee), it is presumed that the company intended to put that person in a better position and the connected person must demonstrate that there was, in fact, no such desire, on the part of the company, to prefer them.

If the court determines that the transaction was a preference, the court shall make such order as it sees fit to restore the company to the position it would have been in had it not entered into the transaction, which may include reducing payment due under or setting aside guarantees. An order by the court for a preference may affect the property of, or impose any obligation on, any person whether or not he is the person to whom the preference was given, but such an order will not prejudice any interest in property which was acquired from a person other than the company in good faith and for value, or prejudice any interest deriving from such an interest, and will not require a person who received a benefit from the preference in good faith and for value to pay a sum to the liquidator or administrator of the company, except where the payment is to be in respect of a preference given to that person at a time when he was a creditor of the company.

Onset of insolvency

The date of the onset of insolvency, for the purposes of transactions at an undervalue and preferences (as discussed above), depends on the insolvency procedure in question.

In administration, the onset of insolvency is the date on which: (a) the court application for an administration order is issued; (b) the notice of intention to appoint an administrator is filed at court; or (c) otherwise, the date on which the appointment of an administrator takes effect.

In a compulsory liquidation the onset of insolvency is the date the winding-up petition is presented to court, whereas in a voluntary liquidation it is the date the company passes a winding-up resolution. Where liquidation follows administration, the onset of insolvency will be the same as the initial administration.

Connected persons

If the given transaction at an undervalue or preference has been entered into by the company with a "connected person," then particular specified time periods and presumptions will apply to any challenge by an administrator or liquidator (as set out above).

A connected person of a company granting a security interest or guarantee for the purposes of transactions at an undervalue and preferences is a party who is: (a) a director of the company; (b) shadow director; (c) an associate of such director or shadow director; or (d) an associate of the relevant company.

A party is associated with an individual if they are: (a) a relative of the individual; (b) the individual's husband, wife or civil partner; (c) a relative of the individual's husband, wife or civil partner; (d) the husband, wife or civil partner of a relative of the individual; or (e) the husband, wife or civil partner of a relative of the individual's husband, wife or civil partner. A party is associated with a company if employed by that company. A person is an associate of any person with whom they are in partnership, and of the husband, wife or civil partner or a relative of any individual with whom they are in partnership.

A company is associated with another company if the same person has control of both companies, or a person has control of one and persons who are his associates, or he and persons who are his associates, have control of the other, or if a group of two or more persons has control of each company, and the groups either consist of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a member of either group as replaced by a person of whom he is an associate.

A person is to be taken as having control of a company if the directors of the company or of another company which has control of it (or any of them) are accustomed to act in accordance with his directions or instructions, or he is entitled to exercise, or control the exercise of, one third or more of the voting power at any general meeting of the company or of another company which has control of it. Where two or more persons together satisfy either of these conditions, they are to be taken as having control of the company.

Transactions defrauding creditors

Where a transaction entered into by an English company was at an undervalue and the court is satisfied that it was made for the substantial purpose of putting assets beyond the reach of a person who is making, or may make, a claim against that company, or of otherwise prejudicing the interests of a person in relation to the claim which that person is making or may make, then the transaction may be set aside by the court as a transaction defrauding creditors. Any person who is a "victim" of the transaction (with the leave of the court if the company is in liquidation or administration), and not just liquidators or administrators, may assert such a claim. Subject to certain conditions, this provision may also be used by the U.K. Financial Conduct Authority and the U.K. Pensions Regulator. There is no statutory time limit within which a claim must be made (subject to the normal statutory limitation periods) and the company need not be insolvent at the time of, or as result of, the transaction.

If the court determines that the transaction was a transaction defrauding creditors, the court may make such order as it thinks fit to restore the position to what it would have been if the transaction had not been entered into and to protect the interests of the victims of the transaction. The relevant court order may affect the property of, or impose any obligation on, any person, whether or not he is the person with whom the transaction was entered into. However, such an order will not prejudice any interest in property which was acquired from a person other than the debtor company in good faith, for value and without notice of the relevant circumstances, and will not require a person who received a benefit from such transaction in good faith, for value and without notice of the relevant circumstances to pay any sum to the liquidator or administrator of the company unless such person was a party to the transaction.

Extortionate credit transaction

An administrator or a liquidator can apply to court to set aside an extortionate credit transaction. The court can review extortionate credit transactions entered into by an English company up to three years ending with the day on which the English company entered into administration or went into liquidation. A transaction is "extortionate" if, having regard to the risk accepted by the person providing the credit, the terms of it are (or were) such as to require grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of the credit or it otherwise grossly contravened ordinary principles of fair dealing.

Limitation on enforcement

The grant of a Guarantee by any of the English companies in respect of the obligations of another group company must satisfy certain legal requirements. More specifically, such a transaction must be allowed by the respective company's memorandum and articles of association. To the extent that these documents do not allow such an action, there is the risk that the grant of the guarantee can be found to be void and the respective creditor's rights unenforceable. Some comfort may be obtained for third parties if they are dealing with an English company in good faith; however, the relevant legislation is not without difficulties in its interpretation. Further, corporate benefit must be established for each English company in question by virtue of entering into the proposed transaction. Section 172 of the Companies Act 2006 provides that a director must act in the way that he considers, in good faith, would be most likely to promote the success of the English company (as applicable) for the benefit of its members as a whole. If the directors enter into a transaction where there is no or insufficient commercial benefit, they may be found as abusing their powers as directors and such a transaction may be vulnerable to being set aside by a court.

Foreign currency

Under English insolvency law, where creditors are asked to submit formal proofs of claim for their debts, any debt of a company payable in a currency other than pounds sterling (such as U.S. dollars in the case of the Notes) must be converted by the insolvency office-holder into pounds sterling at a single exchange rate for that currency determined by the insolvency office-holder by reference to the exchange rates prevailing on the relevant date. This provision overrides any agreement between the parties. Accordingly, in the event of a Guarantor's liquidation or administration, the Noteholders may be subject to exchange rate risk between the relevant date and receipt of any amounts to which such the Noteholders may become entitled. Any losses resulting from currency fluctuations are not recoverable from the insolvent estate. If a creditor considers the rate to be unreasonable, they may apply to the court.

Company voluntary arrangements

In order to propose a company voluntary arrangement, a company must either (i) be registered in England and Wales or Scotland; or (ii) be incorporated in an EEA state; or (iii) if not incorporated in an EEA state, have its COMI in the UK or an EU member state (other than Denmark).

Pursuant to Part I of the Insolvency Act, a company (by its directors or its administrator or liquidator as applicable) may propose a company voluntary arrangement to the company's shareholders and creditors which entails a compromise, or other arrangement, between the company and its creditors, typically a rescheduling or reducing of the company's debts. Provided that the proposal is approved by the requisite majority of creditors (by way of a decision procedure) and shareholders, it will bind all unsecured creditors who were entitled to vote on the proposal. A company voluntary arrangement cannot affect the right of a secured creditor to enforce its security, except with its consent. A company voluntary arrangement also cannot affect the rights of a preferential creditor to be paid in priority to non-preferential creditors, or to be paid on an unequal basis relative to other preferential creditors, except with its consent.

In order for the company voluntary arrangement proposal to be passed, it must be approved by at least 75% (by value) of the company's creditors who respond in the decision procedure, and no more than 50% (by value) of unconnected creditors may vote against it. Secured debt cannot be voted in a company voluntary arrangement. However, a secured creditor may vote to the extent that it is undersecured. A secured creditor who proves in the company voluntary arrangement for the whole of its debt may be deemed to have given up its security.

Unlike an administration proceeding, a company voluntary arrangement does not automatically trigger a moratorium of claims or proceedings.

Scheme of arrangement

Although not an insolvency proceeding, pursuant to Part 26 of the Companies Act 2006, the English courts have jurisdiction to sanction a scheme of arrangement that effects a compromise between a company and its creditors (or any class of its creditors). An English Obligor may be able to pursue a scheme in respect of their financial liabilities. In addition, a foreign company which is liable to be wound up under the Insolvency Act and has a "sufficient connection" to the English jurisdiction could also pursue a scheme. In practice, a foreign company is likely to satisfy the first limb of this test and the second limb has been found to be satisfied where, amongst other things, the company's COMI is in England, the company's finance documents are English law governed, or the company's finance documents have been amended in accordance with their terms to be governed by English law. Ultimately, each case will be considered on its particular facts and circumstances so previous cases will not necessarily determine whether or not any of the grounds of the second limb are satisfied in the present case.

Before the court in England considers the sanction of a scheme of arrangement at a hearing where the fairness and reasonableness of the scheme will be considered, affected creditors will vote on the proposed compromise or arrangement in respect of their claims in a single class or in a number of classes, depending on the rights of such creditors that will be affected by the proposed scheme and any new rights that such creditors are given under the scheme. Such compromise can be proposed by the company or its creditors. If a majority in number representing 75% or more by value of those creditors present and voting at the meeting(s) of each class of creditors vote in favor of the proposed scheme, irrespective of the terms and approval thresholds contained in the finance documents, then that scheme will (subject to the sanction of the court) be binding on all affected creditors, including those affected creditors who did not participate in the vote and those who voted against the scheme. The scheme then needs to be sanctioned by the court at a sanction hearing where the court will review the fairness of the scheme and consider whether it is reasonable. The court has the discretion as to whether to sanction the scheme as approved, make an order conditional upon modifications being made or reject the scheme.

Restructuring plan

Like a scheme of arrangement, a restructuring plan is a procedure under the Companies Act 2006, namely Part 26A thereof, which allows the English courts to effect a compromise of a company's liabilities between a company and its creditors (or any class of its creditors), but with the added possibility of a 'cross-class cram-down'. While generally available to the same domestic and foreign companies as schemes of arrangement, a company seeking to enter into a restructuring plan process must show that (a) it has encountered, or is likely to encounter, financial difficulties that are affecting, or will or may affect, its ability to carry on business as a going concern, and (b) a compromise or arrangement has been proposed between the company and its creditors (or any class of them) for the purpose of eliminating, reducing or preventing, or mitigating the effect of, any of those financial difficulties.

A restructuring plan may be proposed by the debtor company, any creditor of the company or any liquidator or administrator appointed to the company. As with a scheme of arrangement, affected creditors will vote on the proposed compromise or arrangement in respect of their claims in a single class or in a number of classes depending on the rights of such creditors which will be affected by the proposed restructuring plan and any new rights that such creditors are given under the restructuring plan. Unlike a scheme of arrangement, the court may order that a class of creditors or shareholders with no genuine economic interest in the company be excluded from voting on the restructuring plan but still bound by it if the court subsequently sanctions the restructuring plan.

A restructuring plan will be deemed to be approved if at least 75% in value of the creditors and/or members (if applicable) present and voting at the meeting of at least one class of creditors vote in favor of the proposed compromise. There is no requirement for the approving creditors to constitute a majority in number of those creditors present and voting, and there is crucially no requirement for each and every voting class to approve of the plan, provided that the court is satisfied that (a) none of the members of a dissenting class would be any worse off if the restructuring plan were to be sanctioned than they would be in the event of the 'relevant alternative' and (b) the restructuring plan was approved by at least one class of creditors who would receive a payment or have a genuine economic interest in the company in the event of the 'relevant alternative'. The 'relevant alternative' for the purposes of this assessment is whatever the court considers would be most likely to occur in relation to the company if the restructuring plan were not sanctioned. By virtue of these mechanics, the restructuring plan process provides for the possibility of a 'cross-class cram-down', meaning the courts may sanction a restructuring plan even if one or more classes of affected creditors do not vote in favor of the restructuring plan, effectively allowing the vote of one class of stakeholders to bind other classes.

Following approval of the restructuring plan at the creditor meeting(s), the restructuring plan needs to be sanctioned by the court at a sanction hearing where the court will review whether the applicable statutory conditions have been met and may also consider whether the restructuring plan is just and equitable. The court has discretion as to whether to sanction the restructuring plan as approved, make an order conditional upon modifications being made or refuse to sanction the restructuring plan. Once sanctioned, the restructuring plan binds all affected stakeholders whose rights will be as set out in the restructuring plan, which shall be effective (in accordance with its terms) upon delivery of the court's order sanctioning the restructuring plan to the Registrar of Companies.

As with schemes of arrangement, the commencement of a restructuring plan process does not automatically trigger a moratorium of claims or proceedings.

Part A1 moratorium

The Part A1 moratorium process was introduced into the Insolvency Act from 26 June 2020. It is designed to allow a short moratorium of up to 40 business days to be obtained by companies in financial distress, without the need for creditor or court consent. Such moratorium prevents enforcement action by certain types of creditors in order to make a rescue viable, and can be extended to up to a year with creditor consent, or longer by court order. Note that the moratorium does not restrict enforcement or payment of debts due under contracts involving financial services – this includes capital market investments.

The moratorium is a "debtor in possession" process which allows the company's management to remain in control of it during the process. This is overseen by an insolvency practitioner who is required to monitor the process. To be eligible for a moratorium, the company's management must certify that the company is, or is likely to become, unable to pay its debts. The insolvency practioner, in its role as monitor, must also certify in its view that a moratorium would result in the company being rescued as a going concern.

Cross-border recognition of English insolvency and restructuring proceedings

General position

The recognition of English insolvency and restructuring proceedings in other jurisdictions is governed by applicable treaties in respect of the mutual recognition (or otherwise) of courts' jurisdiction, proceedings and judgments and general principles of private international law such as comity and conflicts of laws rules applicable in the relevant jurisdictions.

One of the key insolvency-related treaties is the UNCITRAL Model Law on Cross-Border Insolvency (the "**Model Law**"), which has been adopted in a number of jurisdictions, including the United States and the UK, where it was implemented by the Cross-Border Insolvency Regulations. The Model Law provides for recognition of certain UK insolvency proceedings in other signatory states as either foreign main proceedings (if the COMI of the relevant debtor is determined to be in the UK) or foreign non-main proceedings (if the COMI is determined to be in another jurisdiction but the debtor has an establishment in the UK) upon application by the relevant insolvency officeholder. The nature and scope of the recognition will depend on the way that the Model Law has been implemented into the domestic law of the jurisdiction in question. Conversely, the Cross-Border Insolvency Regulations provide for recognition in the UK of foreign insolvency proceedings as either main proceedings (if the proceedings are taking place in the jurisdiction where the debtor has its COMI) or non-main proceedings (if the proceedings are taking place in a jurisdiction in which the debtor has only an establishment).

The recognition of English courts' jurisdiction and orders in respect of schemes of arrangement, which are restructuring rather than insolvency proceedings, will be subject to treaties regarding matters relating to the jurisdiction of courts in civil proceedings and the enforcement of civil judgments such as the Hague Convention on Choice of Court Agreements 2005 (the "**Hague Convention**") and the Lugano Convention 2007 (the "**Lugano Convention**") (subject to the UK's pending application to accede to the latter) where these apply. In addition, recognition may still be available under principles of private international law and Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations ("**Rome I**").

The recognition of English courts' jurisdiction and orders in respect of restructuring plans is a developing area of law. It remains to be seen whether restructuring plans will fall within the scope of treaties regarding matters relating to the jurisdiction of courts in civil proceedings and the enforcement of civil judgments such as the Hague Convention and the Lugano Convention, or whether they will be treated more akin to insolvency and restructuring proceedings and fall within related exceptions to such treaties (the one case to date in which this point has been considered adopted the latter position).

Recognition in the EU

Following the UK's departure from the EU and the expiry of the Transition Period, UK proceedings no longer benefit from automatic and guaranteed recognition in EU member states. As the trade and cooperation terms agreed between the EU and the UK do not include a replacement regime for the current automatic recognition of UK insolvency procedures across the EU (and vice versa) or otherwise address insolvency matters, cross-border insolvencies involving the UK and one or more EU member states will be subject to a degree of uncertainty and increased complexity.

Unless or until a mutual recognition agreement is reached in the future, it is likely to be more problematic for UK restructuring and insolvency proceedings to be recognized in EU member states and for UK office holders to effectively deal with assets located in EU member states. The general position outlined above will apply and recognition will depend on the private international law rules adopted in the relevant EU member state and the need may well arise to open parallel proceedings, increasing the element of risk as well as costs. In particular in cases where the appointment of a UK office holder is made in reliance on a UK domestic approach rather than COMI rules, it is much less certain that such appointment will be recognized in other EU member states. To the extent relevant proceedings are deemed to fall within the remit of contract law, Rome I may offer an alternative basis for recognition in EU member states.

As a consequence, the recognition of English insolvency and restructuring proceedings across the EU member states may be different from what investors may have experienced in the past when the UK was a member state of the EU. It is not possible to predict with certainty if and to what extent proceedings will be recognized and whether investors may be adversely affected as a result.

Scotland

Scotland forms a part of the United Kingdom and so the comments in the section headed "*England and Wales— U.K. withdrawal from the European Union*" also apply to Scotland and any Guarantor incorporated in Scotland (the "**Scottish Obligor**") with additional regulations in Scotland (The Insolvency (EU Exit) (Scotland) (Amendment) Regulations (SI 2019/94)) to effect necessary amendments to Scottish specific legislation. As such, the following section outlines the relevant insolvency law considerations in Scotland as of the date of this Offering Memorandum only.

Insolvency Proceedings

Unless insolvency proceedings or certain related proceedings were opened prior to the expiry of the EU withdrawal transition period, in which case the unmodified EU Insolvency Regulation and related EU insolvency legislation would apply, insolvency proceedings with respect to the Scottish Obligor would likely proceed under, and be governed by, Scottish insolvency laws in force at the time of commencement of the relevant proceedings. However, to the extent that a Scottish Obligor has its COMI in a member state of the European Union, insolvency proceedings could, pursuant to the EU Insolvency Regulation and subject to certain exceptions, be opened in the relevant EU member state and be subject to the laws of that EU member state.

In addition, pursuant to the Cross Border Insolvency Regulations 2006, which implement the Model Law in Great Britain and which apply to foreign insolvency proceedings (subject to certain exceptions) anywhere in the world without any condition of reciprocity, certain collective foreign (i.e. non-Scottish) proceedings in respect of a Scottish company may be recognised by (and receive assistance from) the Scottish courts as foreign main proceedings where the company has its COMI in the foreign jurisdiction where the insolvency proceedings are taking place, or, as foreign non main proceedings where it has an "establishment" (being a place of operations where it carries out a non-transitory economic activity with human means and assets or services) in such foreign jurisdiction. Should any Scottish company have its COMI in a jurisdiction that is not within the U.K., and insolvency proceedings are opened in that jurisdiction and afforded recognition by the Scottish courts, any proceedings opened in Scotland would be limited to the assets of the relevant company that are located in Great Britain. Upon recognition of foreign main proceedings, an automatic stay, equivalent to the stay in a Scottish compulsory liquidation, will apply to prevent certain types of creditor action in Great Britain, including commencement of proceedings concerning the debtor's assets, rights, obligations or liabilities (but the automatic stay will not affect a creditor's rights to enforce security over the debtor's property (albeit such a stay may be requested from the Scottish court)). No automatic stay applies upon recognition of foreign non main proceedings (albeit such a stay may be requested from the Scottish court).

Although the scope of the Scottish courts' jurisdiction varies for the different insolvency proceedings available in Scotland, Scottish courts generally have jurisdiction to open insolvency proceedings in respect of any company which is incorporated in Scotland, which has its COMI in the United Kingdom or which has its COMI in an EU member state (other than Denmark) and an "establishment" in the U.K.. While this allows Scottish courts to assume jurisdiction over certain foreign companies in respect of certain insolvency proceedings, the efficacy of such proceedings may significantly depend on the likelihood and extent of subsequent recognition of such proceedings in relevant other jurisdictions.

The U.K. Insolvency Act is a U.K. statute and so is also applicable to Scottish companies, although there are some specific provisions that are only applicable to Scotland or England and Wales and Scotland has its own insolvency rules. The statements made in the sections "*—England and Wales—Administration*", "*—England and Wales—Liquidation/winding up*" and "*—England and Wales—Scheme of arrangement*" above are equally applicable to Scotland and the Scottish Obligor, subject to the following sections relating to Scotland and references to England, English law and the English courts being read to mean Scotland, Scots law and the Scottish courts.

Receivership

In Scotland it is possible to appoint a receiver under the U.K. Insolvency Act. Receivership in Scotland is the equivalent of "Administrative Receivership" in England where the whole (or substantially the whole) of the company's property is attached by the floating charge under which the appointment is made. Like "Administrative Receivership", this form of receivership has largely been abolished as a creditor remedy and is only available in very limited circumstances or where the floating charge in questions pre-dated 15 September 2003. Where the relevant floating charge does not relate to the whole (or substantially the whole) of the company's property and the charge holder is not otherwise the holder of a qualifying floating charge, a receiver can be appointed to the charged assets. However, no receiver can be appointed if a company has entered into administration and any receiver appointed before administration must, if the equivalent of an administrative receiver, vacate office on such an appointment or, if appointed over only part of the company's property, resign if requested to do so by the administrator (unless the receiver was appointed under a charge created or otherwise arising under a financial collateral arrangement). Furthermore, there is no ability to appoint a fixed charge receiver under Scots law and the statutory right to appoint a receiver under the Law of Property Act 1925 does not apply in Scotland either.

The most relevant exception to the prohibition on the appointment of a receiver, who on appointment would be an administrative receiver, is the exception relating to a "capital market arrangement" (as defined in the U.K. Insolvency Act, as amended), which may apply is the case if the issue of the note creates a debt of at least £50,000,000 for the relevant company during the life of the arrangement and the arrangement involves the issue of a "capital markets investment" (which is defined in the U.K. Insolvency Act as amended, but is generally a rated, listed or traded debt instrument).

Fixed versus floating charges

Fixed charge security has a number of advantages over floating charge security: (a) an administrator appointed to a charging company can convert floating charge assets to cash and, where the floating charge is not created or does not otherwise arise under a security financial collateral arrangement, use such cash, or use cash subject to a floating charge, to meet administration expenses (which include the administrator's remuneration and can include the costs of continuing to operate the charging company's business while in administration) in priority to the claims of the floating charge holder; (b) a fixed charge over assets, even if created after the date of a floating charge, may have priority as against the floating charge over the charged assets (provided the fixed charge holder has no notice of any restrictions); (c) provided that the floating charge is not created or does not otherwise arise under a security financial collateral arrangement, costs and expenses (including the liquidator's remuneration) properly incurred in a winding-up are payable out of the floating charge assets in priority to the claims of the floating charge holder either where the costs and expenses relate to the realization of the floating charge assets or to the extent the assets of the company available for creditors generally are otherwise insufficient to meet them where agreed by the floating charge holder; (d) until the floating charge security crystallizes (which does not occur automatically on the appointment of an administrator in Scotland), a company is entitled to deal with assets that are subject to floating charge security in the ordinary course of business, meaning that such assets can be effectively disposed of by the charging company so as to give a third party good title to the assets free of the floating charge; (e) floating charge security is subject to certain challenges under Scottish insolvency law; (f) where the floating charge is not created or does not otherwise arise under a security financial collateral arrangement, floating charge security is subject to (i) the claims of certain preferential creditors (such as certain unpaid pension contributions, salaries owed to employees (subject to a cap per employee), holiday pay owed to employees and VAT and certain other tax debts due to HMRC) and (ii) the claims of unsecured creditors in respect of a ring-fenced amount of the proceeds; and (g) an administrator may dispose of or take action relating to property subject to a floating charge without the prior consent of the charge holder or court approval but the floating charge holder retains the same priority in respect of the proceeds from the disposal of the assets subject to the floating charge. With prior approval of the court, an administrator may deal with property subject to a fixed charge, provided that disposing of the property is likely to promote the administration's purpose and that the administrator applies the net proceeds from the disposal of the property in question, together with any additional money required to be added to the net proceeds so as to produce the amount determined by the court as the net amount which would be realized on a sale of the property at market value, towards discharging the obligations of the company to the charge holder. Although these provisions do not apply to any security interest crested or otherwise arising under a financial collateral arrangement.

In Scotland, forms of security are closely tied to specific types of property. Since Scots law does not recognize the English law concept of "equity" there is more focus on the legal formalities rather than the intention of the parties with respect to the creation of security interests. Further, Scots law does not differentiate between legal and equitable ownership of property which further impacts the requirements to create security. If the strict legal requirements under Scots law are not met, there will be no security over the subject notwithstanding the intention of the parties.

To create fixed security over movable property, it is essential that the security holder has some form of possession (which may take different forms) over the subject in order to create a valid security interest. With regard to incorporeal property, there is no Scottish Equivalent of an English law equitable assignment. As such, a Scottish interest in incorporeal property will only be created when the assignation is properly intimated to the relevant parties.

Fixed security over shares in a Scottish company is typically granted by way of a share pledge. However, in order to create a security interest over shares, the security holder (or its nominee), must be written up as the member (i.e. the registered holder of the shares) in the charged company's register of members. If the shares are not transferred and the register of members written up, no right in security is created.

Fixed charges over land and buildings situated in Scotland may only be created using a standard security (which is the Scots law equivalent of an English legal mortgage over an interest of land) and is governed by statute. The process of enforcing a fixed charge over land is very different to that in England and there is no ability to appoint a fixed charge receiver over property.

Under Scottish insolvency law, an administrator may be appointed in respect of (i) a company incorporated in England and Wales or Scotland; (ii) a company incorporated in an EEA state; (iii) a company not incorporated in an EEA state but with its COMI in the U.K. or an EU member state (other than Denmark); (iv) a company (wherever incorporated) having its COMI in the U.K.; or (v) a company (wherever incorporated) with its COMI in a member state of the EU and an "establishment" in the U.K.. In certain circumstances. An administrator can also be appointed out of court by the company, its directors or the holder of a qualifying floating charge granted by the company and which has become enforceable and different procedures apply according to the identity of the appointor. During the administration, or after a notice of intention to appoint an administrator has been lodged, amongst other restrictions, in general no proceedings or other legal process may be commenced or continued against the company, or security enforced over the company's property, except with leave of the court or the consent of the administrator. The moratorium does not, however, apply to a "security financial collateral arrangement" (such as a charge over cash or financial instruments such as shares, bonds or tradable capital market debt instruments) under the Financial Collateral Arrangements (No. 2) Regulations 2003. During the administration of a company, a creditor would not be able to enforce any security interest (other than security financial collateral agreements) or guarantee granted by it without the consent of the administrator or the permission of court.

In order to empower the Security Agent to appoint an administrator to the company, the floating charge granted by the relevant Scottish Obligor must constitute a "qualifying floating charge" and the Security Agent must be the holder of a qualifying floating charge for purposes of Scottish insolvency law In order to constitute a qualifying floating charge, the floating charge must be created by an instrument which (a) states that the relevant statutory provision applies to it; (b) purports to empower the holder to appoint an administrator of the company; (c) purports to empower the holder to appoint an administrator receiver; or (d) purports to empower the holder of a floating charge in Scotland to appoint a receiver who on appointment would be an administrative receiver. The Security Agent will be the holder of a qualifying floating charge if such floating charge security, together (if necessary) with the fixed charge security interests, relates to the whole or substantially the whole of the relevant Scottish Obligor's property and at least one such security interest is a qualifying floating charge. Whether the assets that are subject to the floating charge and other security will constitute the whole or substantially the whole of the relevant Scottish Obligor's assets at the time the floating charge is enforced will be a question of fact at that time.

Priority of Claims on Insolvency

One of the primary functions of winding-up (and, where the company cannot be rescued as a going concern, one of the possible functions of administration) under Scots law is to realize the assets of the company in question and distribute the proceeds from those assets to the company's creditors.

In accordance with the U.K. Insolvency Act and the Scottish insolvency rules, creditors are placed into different classes, with the proceeds from the realization of the insolvent company's property applied in descending order of priority, as set out below. With the exception of insolvency set-off and the 'Prescribed Part' (see "*—Prescribed part*"), distributions generally cannot be made to a class of creditors until the claims of the creditors in a prior-ranking class have been paid in full. Unless creditors have agreed otherwise, distributions are made on a pari passu basis, that is, the assets are distributed in proportion to the debts due to each creditor within a class.

An exception to the principle of pari passu distribution, is insolvency set-off, which sees an account being taken of what is due from each party to the other in respect of their mutual dealings, and whereby only any net balance owed by the company is provable in the administration or liquidation. Insolvency set-off is not mandatory or automatic in Scotland. Rather, for it to apply, it needs to be pled – there is no strict definition or test on what is required to "plead" set-off. Whilst insolvency set-off as a doctrine exists, as it is not mandatory, it may still be possible for pre-insolvency arrangements or contracts to impact the ability of a creditor to plead it.

Where insolvency set-off can be applied, it effectively affords the creditor with the ability to receive full value for an equivalent amount of its claim against the company in circumstances where it might otherwise, as an unsecured creditor, receive little or no dividend in respect of that element of its claim. However, insolvency set-off will not apply to all amounts owing between the creditor and debtor company; amongst other things, claims arising after a certain cut-off date will be excluded and the requisite degree of mutuality must exist.

The general priority on insolvency is as follows (in descending order of priority):

First ranking: holders of fixed charge security (but only to the extent that the value of the secured assets is less than or equal to the value of the secured debt) subject to the prior payment of the costs of preservation and realization of the fixed charge assets;

Second ranking: moratorium debts and priority pre-moratorium debts in respect of a moratorium under Part A1 of the U.K. Insolvency Act. Where a company goes into administration, or proceedings for the winding-up of a company are begun, within 12 weeks of the end of a moratorium under Part A1 of the U.K. Insolvency Act, certain categories of debt must be paid in priority of all other claims (though this does not affect the rights or ranking in liquidation or administration, of creditors holding fixed charges, nor does it apply against any charge created or otherwise arising under a financial collateral arrangement within the meaning of the Financial Collateral Arrangements (No. 2) Regulations 2003). Moratorium debts are any debt or liability that falls due during or after the Part A1 moratorium by reason of an obligation incurred during it. Priority pre-moratorium debts comprises the following debts or liabilities where the company becomes subject to them before or while the moratorium is in force due to an obligation incurred before the moratorium comes into force and relate to: (i) the monitor's remuneration or expenses; (ii) payment for goods or services supplied during the moratorium; (iii) rent in respect of a period during the moratorium; (iv) wages or salary arising under a contract of employment, so far as relating to a period of employment before or during the moratorium; (v) liability to make a redundancy payment that fell due before or during the moratorium; and (vi) debt due under a contract or other instrument involving financial services that fell due before or during the moratorium (unless, broadly, it fell due only because of the use or operation of acceleration provisions in the relevant arrangements that were triggered in the run up to, or during, the moratorium);

Third ranking: expenses of the insolvent estate (there are statutory provisions setting out the order of priority in which expenses are paid);

Fourth ranking: Ordinary and thereafter secondary preferential debts.

Ordinary preferential include (but are not limited to) debts owed by the insolvent company in relation to: (a) contributions to occupational and state pension schemes; (b) wages and salaries of employees for work done in the four months before the insolvency date, up to a maximum of £800 per person; (c) holiday pay due to any employee whose contract has been terminated, whether the termination takes place before or after the insolvency date; and (d) bank and building society deposits eligible for compensation under the Financial Services Compensation Scheme ("**FSCS**") up to the statutory limit.

Secondary preferential debts rank for payment after the discharge of the ordinary preferential debts. Such secondary preferential debts include: (a) bank and building society deposits eligible for compensation under the FSCS to the extent that claims exceed the statutory limit and (b) for insolvencies commencing on or after December 1, 2020, claims by HMRC for taxes including VAT, PAYE income tax (including student loan repayments), employee NI contributions and Construction Industry Scheme deductions (but excluding corporation tax and employers' NI contributions) which are held by the company on behalf of employees and customers. As between one another, all preferential debts within each category rank equally;

Fifth ranking: provable debts of unsecured creditors to the extent of the Prescribed Part (see "—*Prescribed part*") only, unless the cost of distributing the same would be disproportionate to the resulting benefit to creditors;

Sixth ranking: holders of floating charge security, according to the priority of their security;

Seventh ranking: provable debts of unsecured creditors and (to the extent of any unsecured shortfall) secured creditors, in each case including accrued and unpaid interest on those debts up to the date of commencement of the relevant insolvency proceedings. If a debt does not depend on a contingency but would not be payable but for the insolvency until after the date on which the company went into insolvency, the amount of the claim is calculated as if the debt were payable on the date on which the company entered into the insolvency process but subject to the deduction of interest at the official rate of interest. The official rate of interest is defined by reference to the Scottish insolvency rules and the U.K. Insolvency Act as applicable. To pay the secured creditors any unsecured shortfall, the insolvency officeholder can only use realizations from unsecured assets as secured creditors are not entitled to any distribution from the Prescribed Part (see "—*Prescribed part*") unless the Prescribed Part is sufficient to pay out all unsecured creditors;

Eighth ranking: interest on the preferential and ordinary debts in respect of any period after the commencement of liquidation or after the commencement of an administration. However, in the case of interest accruing on amounts due under the Notes or the Notes Guarantees, such interest due to the holders of the Notes may, if there are sufficient realizations from the secured assets, be discharged out of such security recoveries;

Ninth ranking: postponed debts as defined in the Scottish insolvency rules, being certain liabilities which are only recovered in the (unusual) event that all categories above are fully repaid; and

Tenth ranking: shareholders. If, after the repayment of all unsecured creditors in full, any remaining funds exist, these will be distributed to the shareholders of the insolvent company.

Prescribed part

An administrator, receiver (including administrative receiver) or liquidator of a Scottish company will generally be required to ring-fence a certain percentage (the Prescribed Part) of the proceeds of enforcement of a floating charge security granted on or after September 15, 2003 for the benefit of unsecured creditors. Under current law, this applies to 50% of the first £10,000 of net floating charge realizations and 20 per cent. of the remainder over £10,000, and the Prescribed Part is subject to a maximum aggregate cap of £800,000 (such cap being effected by the Insolvency Act 1986 (Prescribed Part) (Amendment) Order 2020) (except where the company's net property is available to be distributed to the holder of a first- ranking floating charge created before April 6, 2020, in which case the maximum aggregate cap is £600,000). The Prescribed Part must be made available to unsecured creditors unless the cost of doing so would be disproportionate to the resulting benefit to creditors and, if the floating charge realizations exceed £10,000, the court grants an order on the application of the insolvency officeholder on this basis. The Prescribed Part will not be available for any shortfall claims of secured creditors unless the Prescribed Part is sufficient to pay out all unsecured creditors' claims in full. This requirement shall, however, not apply to the extent that the floating charge constitutes a financial collateral arrangement under the Financial Collateral Arrangements (No. 2) Regulations 2003.

Foreign Currency

Under Scottish insolvency law, any debt of a company payable in a currency other than pounds sterling (such as euro or U.S. dollars) may, in certain circumstances, be stated in a currency other than sterling. However, where creditors are asked to submit statements of claim, that claim will then be converted into pounds sterling at a rate determined by the liquidator or administrator by reference to the exchange rates prevailing in the London market at the close of business on the date when the company went into liquidation or administration. This provision overrides any agreement between the parties. Accordingly, in the event that a Scottish company goes into liquidation or administration, holders of the Notes may be subject to exchange rate risk between the date that the relevant obligor went into liquidation or administration and the date of receipt of any amounts to which such holders of the Notes may become entitled. Any such holder of the Notes would not be entitled to make a claim for any losses suffered by them as a result of a fall in the value of pounds sterling between the "relevant date" and the date of any distribution.

Challenges to guarantees and security

There are circumstances under Scottish insolvency law in which the granting by a Scottish company of security, guarantees and other transactions can be challenged. In most cases this will only arise if the company is placed into administration or liquidation within a specified period of the granting of the guarantee or security or transaction being effected, though common law challenges can be brought beyond the specified period. If, during the specified period an administrator or liquidator is appointed to a Scottish company, he may challenge the validity of the guarantee or security given by such company in certain circumstances and seek to unwind the transaction. Further, the insolvency practitioner may elect to assign such a right of action (including their proceeds) to another party who would then be entitled to pursue it.

The following potential grounds for challenge may apply to guarantees and security interests:

Gratuitous Alienations (s.242 Insolvency Act 1986)

Under Scottish insolvency law, a security interest or a guarantee granted by the company can be challenged, on the grounds that the creation of such security interest or guarantee constituted a gratuitous alienation. Such a challenge can be brought by the administrator if the company enters administration, or if the winding-up of the company has commenced, either by the liquidator or by any creditor who is a creditor of the Scottish company by virtue of a debt incurred on or before the date of commencement of the winding-up. The transaction (including the granting of a guarantee or security interest or disposal of an asset or interest) can be challenged if it occurs on a day not earlier than two years before the date the Scottish company enters into liquidation or administration proceedings if the transaction was with a party which is not an "associate" (defined by reference to the Bankruptcy (Scotland) Act 2016) of the Scottish company, or, on a day not earlier than five years before such date if the transaction was with an "associate" of the Scottish company. A transaction might be subject to being set aside as a gratuitous alienation (the English equivalent is a transaction at undervalue) if the company makes a gift to a person (save in certain specified circumstances), or if the company receives no consideration or if the company receives inadequate consideration in respect of the transaction. However a gratuitous alienation action may be defeated if the person seeking to uphold the alienation establishes (i) that immediately or at any other time or after the alienation the company's assets were greater than its liabilities; (ii) the alienation was made for adequate consideration; or (iii) the alienation was a birthday, Christmas or other conventional gift; or (iv) the gift was made for a "charitable purpose" to a person not an "associate" of the company, which having regard to all circumstances it was reasonable for the company to make. If the court determines that the transaction was a gratuitous alienation the court shall grant a decree of reduction or for restoration of the property to the company's assets or such other redress as may be appropriate (although there is protection for a third party who acquires in good faith and for value any right or interest through the transferee in the alienation).

A transaction made at a time when a company is insolvent may also constitute a gratuitous alienation at common law. In these circumstances, no time limits apply in relation to challenging it. A gratuitous alienation may constitute wrongful (or indeed fraudulent) trading, or a breach of duty, and lead to action being raised against directors personally.

The meaning of "associate" for the purposes of gratuitous alienations is defined by reference to Section 229 of the Bankruptcy (Scotland) Act 2016.

In broad terms, a company is an associate of another company if: (a) the same person has control of both, or, if a person (X) has control of one and persons who are X's associates have control of the other; or (b) a group of two or more persons has control of each company and the groups either (i) consist of the same persons, or (ii) could be regarded as consisting of the same persons by treating (in one case or more) a member of either group as replaced by a person of whom that member is an associate.

A company is an associate of another person (Y) if Y has control of it or Y and persons who are Y's associates together have control of it.

A person (Z) is taken to have control of a company if (i) the directors of the company, or of another company which has control of it (or any of them) are accustomed to act in accordance with Z's directions or instructions, or (ii) if Z is entitled to exercise, or control the exercise of 1/3 or more of the voting power at any general meeting of the company or of another company which has control of the company. Where two or more persons together satisfy either of the conditions mentioned they are taken to have control of the company.

A company includes any body corporate whether incorporated in Great Britain or elsewhere.

Unfair Preferences (s.243 Insolvency Act 1986)

Under Scottish insolvency law, a security interest or a guarantee can be challenged on the grounds that the security interest or such guarantee constituted an unfair preference in so far as it has the effect of creating a preference in favor of a creditor to the prejudice of the general body of creditors. The transaction can be challenged by the administrator if the company enters administration, or if the winding-up of the company has commenced, either by the liquidator or any creditor who is a creditor by virtue of a debt incurred on or before the date of commencement of the winding-up any creditor of the Scottish company who is a creditor by virtue of a debt incurred on or before the date of commencement of the winding-up. The transaction (again, including the granting of a guarantee or security interest or disposal of an asset or interest) can be challenged if it occurs on a day not earlier than six months before the Scottish company enters into administration or the winding up of the company. A transaction may constitute an unfair preference if it has the effect of putting a creditor of the Scottish company (or a surety or guarantor for any of the company's debts or liabilities) in a better position than such creditor, guarantor or surety would otherwise have been in had that transaction not been entered into to the prejudice of the general body of creditors. If the court determines that the transaction was an unfair preference, the court shall grant a decree of reduction or for such restoration of property to the company's assets or such other redress as may be appropriate (although there is protection for a third party who acquires in good faith and for value any right or interest from or through the creditor in whose favor the preference was created).

The following will not constitute unfair preferences:

- transactions in the ordinary course of trade or business;
- payment in cash for a debt that, when paid, has become payable, unless the transaction was collusive with the purpose of prejudicing the general body of creditors;
- transactions where the parties take on reciprocal obligations, unless the transaction was collusive; and
- the granting of a mandate by a company authorizing a person to pay over funds in compliance with a court decree in certain prescribed circumstances.

A transaction may also constitute a fraudulent preference at common law (a fraudulent preference is the common law equivalent of the statutory unfair preference). No time limits apply to a common law challenge. An unfair preference may also constitute wrongful (or indeed fraudulent) trading or a breach of duty and lead to actions being raised against directors personally.

Extortionate Credit Transactions (s.244 Insolvency Act 1986)

A liquidator or administrator of a Scottish company (or an assignee of the relevant right of action) could apply to the court for an order to set aside a security interest or guarantee granted by the company on the grounds that the credit transaction is "extortionate". The transaction must have been entered into within three years prior to the administration or liquidation and must have involved the provision of credit to the company on a basis which, having regard to the risk accepted by the person providing the credit, requires grossly exorbitant payments to be made or otherwise grossly contravenes the ordinary principles of fair dealing. Where an administrator or liquidator (or their assignee) makes an application to set aside a transaction on this basis, it is presumed that the transaction is or was extortionate unless otherwise proved. The court may make an order to set aside, either in whole or in part, any obligation created by the transaction (which could include obligations of sureties). It may also vary the terms of the transaction or the terms on which any security for the purposes of the transaction is held. The court may require any party to the transaction to pay to the liquidator or administrator (or their assignee) sums already paid under the transaction and it may order the surrender of any property held as security for the purpose of the transaction. It should be noted that there are no provisions for the protection of third parties who acquire interests in the extortionate credit transaction (e.g., assignees of the benefit of the transaction from the person who provided).

Avoidance of Floating Charges (s.245 Insolvency Act 1986)

Under Scottish insolvency law, a floating charge granted by the Scottish Guarantor is invalid except to the extent of the aggregate value of (1) the consideration for the creation of the floating charge consisting of money paid or goods or services supplied to the Scottish Guarantor at the time of the creation of the floating charge, (2) the value of the consideration consisting of the discharge or reduction of any debt of the Scottish Guarantor at the same time as or after the creation of the floating charge and (3) the amount of any interest payable on these sums, if the Scottish Guarantor enters into liquidation or administration proceedings within a statutory challenge period. The statutory challenge period is a period of one year (if the beneficiary is not a connected person) or two years (if the beneficiary is a connected person) from the date the Scottish Guarantor grants the floating charge. However, if the beneficiary is not a connected person, no amount of the floating charge will be invalid unless the Scottish Guarantor is unable to pay its debts as they fall due (as defined by s.123 Insolvency Act 1986) or becomes unable to so pay its debts as a consequence of granting the floating charge, An administrator or liquidator (as applicable) does not need to apply to court for an order declaring that a floating charge is invalid by operation of law. Any floating charge created during the relevant time period is automatically invalid, except to the extent of the value of the foregoing amounts. However, this provision does not apply to any charge created or otherwise arising under a "security financial collateral arrangement" under the Financial Collateral (No. 2) Regulations 2003.

Commencement of Insolvency Proceedings and Onset of Insolvency

The date of the commencement of insolvency proceedings for the purposes of gratuitous alienations, unfair preferences and extortionate credit transactions (see above), depends on the insolvency procedure in question as it is based on when the company enters administration or the commencement of the winding up. A company will enter administration either on the date specified in an administration order or the date of the administration order where an administration application has been made, or, the date of filing of a notice of appointment of an administrator where the out of court route is used. In a compulsory liquidation, the date of commencement of the winding-up is the date on which the winding- up petition is presented to court, whereas in a voluntary liquidation it is the date on which the company passes a winding-up resolution. Where liquidation follows administration, the commencement date will be that of the initial administration.

The relevant date for invalid floating charges (see "*Avoidance of Floating Charges (s.245 Insolvency Act 1986)*" above) is by reference to the onset of insolvency. In administration, the onset of insolvency is the date on which (a) the court application for an administration order is submitted, (b) the notice of intention to appoint an administrator is filed at court, or (c) otherwise, the date on which the appointment of an administrator takes effect. In a compulsory liquidation, the onset of insolvency is the date on which the winding-up petition is presented to court, whereas in a voluntary liquidation it is the date on which the company passes a winding-up resolution. Where liquidation follows administration, the onset of insolvency for the purposes of invalid floating charges will be as for the initial administration.

Connected Persons

A connected person, for the purposes of invalid floating charges (see —"*Avoidance of Floating Charges (s.245 Insolvency Act 1986)*"), is a party who is: (a) a director of the company; (b) a shadow director; (c) an associate of such director or shadow director; or (d) an associate of the relevant company (section 249 of the U.K. Insolvency Act).

A party is associated with an individual (under section 435 of the U.K. Insolvency Act) if they are: (a) a relative of the individual; (b) the individual's husband, wife or civil partner; (c) a relative of the individual's husband, wife or civil partner; (d) the husband, wife or civil partner of a relative of the individual; or (e) the husband, wife or civil partner of a relative of the individual's husband, wife or civil partner. A party is associated with a company if they are employed by that company. A company is associated with another company if the same person has control of both companies, or a person has control of one and persons who are his associates, or he and persons who are his associates, have control of the other, or if a group of two or more persons has control of each company and the groups either consist of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a member of either group as replaced by a person of whom he is an associate.

A person is to be taken as having control of a company if the directors of the company or of another company which has control of it (or any of them) are accustomed to act in accordance with his directions or instructions, or he is entitled to exercise, or control the exercise of, one third or more of the voting power at any general meeting of the company or of another company which has control of it. Where two or more persons together satisfy either of these conditions, they are to be taken as having control of the company.

Guarantees

A pure guarantee is an accessory obligation (or a "cautionary obligation" under Scots law) by a guarantor relating to the primary obligation of the party whose obligations are guaranteed. If the primary obligation is altered, discharged or fails, the guarantee may not be enforceable. However, the document containing the guarantee will almost invariably contain an indemnity, i.e. a direct obligation from the guarantor to the third party as an independent primary obligation. The indemnity should survive even if the guarantee is unenforceable in the circumstances described above. No limitation language is required to be included in the Indentures relating to the Notes Guarantee by the Scottish Guarantor.

Corporate benefit must be established if a company is granting a guarantee. If there is doubt about whether there is corporate benefit, shareholders' approval for the act should be obtained although the act could still be challenged by other parties such as creditors. In addition, if no corporate benefit is established and a liquidator or administrator is appointed to the company, the transaction is more susceptible to an attack by the liquidator or an administrator as an "unfair preference" or a "gratuitous alienation" and may be rendered unenforceable. However, it is possible to establish defenses against such attacks (see the defenses set out in "—*Scotland— Challenges to guarantees and security—Gratuitous Alienations (s.242 Insolvency Act 1986)*"). Such defenses are normally considered at the time of the board meeting of the company granting the guarantee. The company might seek to document its solvency position, for example, by having an accountant prepare updated accounts.

Directors' Authority

If no corporate benefit is established, it may not be possible to enforce a guarantee or security interest granted where the directors of the company giving the guarantee or security interest exceeded their authority. Directors will exceed their authority if a transaction is beyond the objects or powers in the company's articles of association (constitution). A third party dealing in good faith with a company can still enforce the transaction. However, a third party will not be acting in good faith if it knows the transaction is beyond the power of the directors and is not for the benefit of the company (e.g. a guarantee or security interest has no corporate benefit for the company but benefits the directors or another person). In a transaction of this nature it is therefore market practice for the legal advisers to confirm that there are no such restrictions in the articles of association.

Disclaimer of Contracts

In contrast to English law, a liquidator appointed to a Scottish registered company does not have the power to disclaim onerous property or contracts. A liquidator appointed to a Scottish registered company can cause the company to decline to perform its contractual obligations.

Security Registration

The prescribed particulars in respect of a security document under which a Scottish company purports to create security, together with a certified copy of the security document, should be delivered to the Registrar of Companies within 21 days after the date of creation of the security in accordance with Chapter A1 of Part 25 of the Companies Acts 2006 ("**CA06**"). Failing this, the security created by the security document will (subject as mentioned in the above Chapter) be void against a liquidator or administrator and any creditor of the charging company. The application of the above Chapter to a security interest is subject to the application of the Financial Collateral Regulations. In addition, the following categories of charge are not registrable under the above Chapter (as set out in section 859A(6) of the CA06): (i) a charge in favor of a landlord on a cash deposit given as a security in connection with the lease of land; (ii) a charge created by a member of Lloyd's (within the meaning of the Lloyd's Act 1982) to secure its obligations in connection with its underwriting business at Lloyd's; and (iii) a charge excluded from the application of section 859A of the CA06 by or under any other Act (such as charges that are exempted from registration under the Banking Act 2009). Registration may also determine the order of priority of registrable security interests and may provide notice of a pre-existing security interest for the purpose of priorities.

Persons with Significant Control (PSC) Regime

Pursuant to Part 21A of the CA06 (and related Schedules 1A and 1B to the CA06), certain U.K. incorporated companies and limited liability partnerships (for the purposes of this paragraph, each a relevant company) must keep a register of certain registrable individuals and legal entities that have significant control over them. Failure of such registrable individuals or legal entities or other persons specified in Part 21A of (and Schedule 1B to) the CA06 (for the purposes of this paragraph, each a notifying party) to comply with the requirements of that Part may give relevant companies the right to issue a restrictions notice to such notifying party for the purposes of Schedule 1B to the CA06. Subject to certain exceptions, the effect of a restrictions notice is that in respect of any relevant interest in the relevant company (as defined in Schedule 1B to the CA06, for example, a share in the relevant company): (A) any transfer of (or agreement to transfer) the interest is void; (B) no rights are exercisable in respect of the interest; (C) no shares may be issued in right of the interest or in pursuance of an offer made to the interest-holder; and (D) except in a liquidation, no payment may be made of sums due from the relevant company in respect of the interest, whether in respect of capital or otherwise. Such restrictions could adversely affect the validity of the security interests and the ability to enforce rights under the any Scottish security over shares.

Malaysia

Corporate insolvency in Malaysia is mainly governed by the Companies Act 2016 ("**CA**"). Under the CA, a corporation is commercially insolvent when it cannot pay its current debts when they are due, regardless of whether the corporation has assets which if realized, could cover the debts.

In Malaysia, there are five main corporate insolvency or restructuring mechanisms, which are corporate voluntary arrangements ("**CVA**"), judicial management ("**JM**"), schemes of arrangement, receivership and winding up/liquidation.

Corporate voluntary arrangements (CVA)

Corporate voluntary arrangements are available for private limited companies in financial distress. It is not available to public companies, certain statutory licensed institutions, companies subject to the Capital Markets and Services Act 2007, or companies that have charges over its assets. A company under CVA, enters into a voluntary agreement with its creditors, but under the supervision of an insolvency practitioner and before the company is unable to pay its debts. Court intervention is minimal.

To start a CVA process, section 396 of the CA states that, the director of the company, or the liquidator (if the company is being wound up), or the judicial manager (if the company is under a judicial management order) may propose a CVA. When the proposal is lodged with the court, it must be accompanied by a statement from an insolvency practitioner stating whether the proposal, in his or her opinion (a) has a reasonable prospect of being approved and implemented; (b) whether the company is likely to have sufficient funds to carry on with its business during the moratorium; and (c) whether a meeting of the company and the creditors should be called to consider the proposal.

Once the application is filed, an automatic 28 day moratorium is imposed on all creditors under section 398 of CA and no creditor may take legal action against the company during the moratorium. The moratorium remains in place until a meeting of the creditors is called. The insolvency practitioner must call for a creditors' meeting and at the meeting, 75% in total value vote of the creditors must be present and voting at the meeting for the proposal to be approved. Once approved the CVA becomes binding on all creditors, regardless of whether they voted in favor of the proposal or not. The moratorium can be extended for a maximum of 60 days if 75% in value of the creditors present at the meeting consents to an extension. The meeting however cannot approve a proposal that will affect the rights of a secured creditor to enforce their security, except if the secured creditor agrees.

Once approved, the insolvency practitioner must now act as the supervisor to implement the voluntary arrangement and must operate in accordance with the agreement.

Judicial management (JM)

Under section 404 of the CA, a creditor or the company may apply for the company to be placed under judicial management wherein the company will be placed in the hands of a judicial manager who is a qualified insolvency practitioner.

For the application to be successful, the court must be satisfied that (a) the company is, or will be unable to pay its debts; and (b) there is a reasonable probability that the company, or at least a part thereof, can be rehabilitated or kept as a going concern; or that the interests of the creditors would be better served than with winding up the company. Secured creditors may oppose the appointment of a JM. The court must then consider if public interest overrides the secured creditor's interest.

Once the application for JM is lodged, there is a limited moratorium under section 410 of the CA on what creditors can do until the JM is ordered or the application is dismissed. Once ordered, any winding up application will be dismissed; no security over the company's property may be enforced; and no shares of the company may be transferred.

Within 60 days of the JM's appointment, the JM must call a meeting with all creditors and present a debt restructuring proposal to the creditors at this meeting. For the proposal to be accepted, 75% in value of creditors present and whose claims have been approved by the JM, must vote in favor of the proposal. The proposal may be modified at this meeting.

If the proposal is rejected at the meeting, the JM may be discharged, and other insolvency options will be considered. However, if accepted the proposal is valid on all creditors, regardless of their vote and the JM must oversee the implementation of the proposal. The judicial manager must take custody or control of all company affairs. He or she takes over the role of the directors and must do whatever is necessary to manage the affairs of the company in accordance with the proposal.

Under section 406 of the CA, a JM order is granted for 6 months, but can be extended for a further 6 months. Once the objective is achieved or seems to be incapable of being achieved, the JM can apply for the order to be discharged.

Schemes of arrangements

A scheme of arrangement is a court approved arrangement to restructure debts which can be initiated by either the company, or any creditor, or member of the company. If the company is under judicial management, the judicial manager may initiate the scheme or if the company is being wound up, the liquidator can initiate the proceedings.

Under section 336 of the CA, the initiator can apply to the court to order a meeting of the creditors or members of the company. A company can enter into a scheme of arrangement if 75% in value of creditors or members present at the meeting vote in favor of the proposed arrangement. If the court approves the proposed arrangement, it will be binding on all members and creditors.

The court will only approve the proposed scheme if it is satisfied that (a) all requirements were adhered to; (b) the scheme is viable; (c) all creditors or members had all the information necessary to make an informed decision; and (d) the scheme is fair and reasonable.

If asked, the court may also appoint a liquidator, to assess the viability of the proposed arrangement. Section 368(1) of the CA allows the court to issue a restraining order for a period of not more than 3 months to prevent any further proceedings against the company, once the proposed arrangement between the company and its creditors are in place. The court may, on application of the company, extend this period for not more than 9 months, under certain circumstances.

Receivership

Section 376 of the CA gives the court the power to appoint a receiver or a receiver and manager ("R&M"), after receiving an application from a holder of a charge instrument or any other interested party. The court will appoint a receiver or R&M if the court is satisfied that the company (a) failed to pay a debt due to the holder or has failed to meet any other obligation to the holder, or that the company is in arrears on any additional money borrowed or interest; (b) the company proposes to sell or dispose of secured property in breach of the terms of any instrument creating the security or charge; or (c) it is necessary to appoint a receiver or an R&M to ensure the preservation of the secured property for the benefit of the holder. Once appointed, the receiver or R&M shall have all the powers conferred to him or her by the relevant instrument or by the court order.

Winding-up/Liquidation

There are 2 types of winding-up processes in Malaysia – voluntary and compulsory (by the court) winding up. Voluntary winding-up may be affected by a special resolution of the members of the company (if the company is solvent), or the creditors of the company (if the company is insolvent).

Members voluntary winding-up

A resolution by the members can only be passed if the company is solvent and creditors will be paid in full if the assets are sold to meet liabilities. Before a resolution can be passed, under section 443 of the CA, the directors must make a solvency declaration which states that the directors are of the opinion that all debts will be paid in full within 12 months after the start of the winding-up.

Once winding-up commences, and a liquidator is appointed, the directors won't have any more powers unless authorized by the liquidator. Business activities must halt and any transfer of shares, or alterations in the status of the members, without authorization by the liquidator, shall be void. If the directors cannot make a solvency declaration, or the liquidator discovers that the company is insolvent, the creditors can proceed with a creditor's voluntary winding-up. They may decide to appoint a different liquidator under section 450(2) of the CA.

Creditors voluntary winding-up

A creditor's voluntary winding-up can also be initiated after the directors make a statutory declaration that the company is unable to carry on with its business. Once a liquidator is appointed under a creditor's winding-up, section 451 of the CA states that no further action or proceedings may be initiated against the company, except with leave from the court.

LISTING AND GENERAL INFORMATION

1. Application will be made to list the Notes on the Official List of the Luxembourg Stock Exchange and for admission to trading on the Euro MTF market thereof. There can be no assurance that the Notes will be listed on the Exchange or that such listing will be maintained. The Notes are only intended to be offered in the primary market to, and held by, investors who are particularly knowledgeable in investment matters.

2. The Issuer has obtained all necessary consents, approvals and authorizations in connection with the issue of the Notes and performance of the obligations under the Notes. The issue of the Notes was authorized by a resolution of the Board of Directors of the Issuer passed on October 7, 2022.

3. Notice to holders of the Notes will be published on the official website of the Exchange (bourse.lu/home).

   For so long as the Notes are listed on the Exchange and the listing rules so require, copies of the following documents may be inspected and obtained, free of charge, at the specified office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excluded):

   - the organizational documents of the Company and the Guarantors;
   - the most recent Audited Group Financial Statements published by the Company;
   - the Offering Memorandum;
   - the Indenture (which includes the Guarantees and form of the Notes); and
   - the Guarantee Subordination Agreement.

   Application may also be made to the Exchange to have the Notes removed from listing on the Official List of the Luxembourg Stock Exchange, including if necessary to avoid any new withholding taxes in connection with the listing.

4. We accept responsibility for the information contained in this Offering Memorandum. To the best of our knowledge, except as otherwise noted, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of this Offering Memorandum.

5. Neither we nor any of our subsidiaries is a party to any litigation that, in our judgment, is material in the context of the issue of the Notes, except as disclosed herein.

6. We will have appointed Deutsche Bank Trust Company Americas as our Principal Paying Agent and Transfer Agent in New York. We reserve the right to vary such appointment and shall publish notice of such change of appointment on the Luxembourg Stock Exchange's website. Information on the Luxembourg Stock Exchange's website does not form part of this Offering Memorandum. The Principal Paying Agent will act as intermediary between the holders of the Notes and us so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange.

7. The Notes have been accepted for clearance through the facilities of DTC. The Rule 144A Global Notes have a CUSIP of 29357J AC0 and the Regulation S Global Notes have a CUSIP of G315AP AG3. The Rule 144A Global Notes have an ISIN of US29357JAC09 and the Regulation S Global Notes have an ISIN of USG315APAG37. The Rule 144A Global Notes have a Common Code of 254889504 and the Regulation S Global Notes have a Common Code of 254882437.

8. The Company, which was formed on January 29, 2010, is incorporated as a public limited company under the laws of England and Wales with registered number 07140891. Both its registered office and its principal place of business are located at 5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom and its telephone number is +44 20 7925 4900.

9. The Company's legal entity identifier (the "**LEI**") is 2138008LJU6WFQWOXJ73.

10. The following is a brief description of the Guarantors that will guarantee the Notes from the date on which the Notes are issued:

Company	Jurisdiction	Registered Office
EnQuest Heather Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EnQuest Heather Leasing Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EnQuest ENS Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EnQuest Britain Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EQ Petroleum Sabah Ltd	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EnQuest Production Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EnQuest NWO Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EnQuest Global Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EnQuest Advance Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EnQuest Petroleum Production Malaysia Ltd	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
North Sea (Golden Eagle) Resources Ltd.	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
NSIP (GKA) Limited	Scotland	Annan House, 33 -35 Palmerston Road, Aberdeen, AB11 5QP, Scotland
EnQuest Marketing and Trading Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom
EnQuest Petroleum Developments Malaysia Sdn. Bhd.	Malaysia	10th Floor, Menara Hap Seng No 1 & 3, Jalan P Ramlee, 50250 Kuala Lumpur; Malaysia
EnQuest Advance Holdings Limited	England & Wales	5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR, United Kingdom

GLOSSARY

“**1P**”..	Proved Reserves. Pursuant to the classifications and definitions provided by the PRMS, “Proved Reserves” is defined as those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.
“**2C**”	best estimate scenario of Contingent Resources. Pursuant to the classifications and definitions provided by the PRMS, Contingent Resources are those quantities estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. The 2C Resources represent the “best estimate” scenario; there is a probability of at least 50% that the amount actually recovered will equal or exceed the 2C estimate, in the event that the development project goes ahead.
“**2P**”..	Proved Reserves plus Probable Reserves. Pursuant to the classifications and definitions provided by the PRMS, “Proved Reserves” is defined as those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations and “Probable Reserves” is defined as those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves; it is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved Reserves plus Probable Reserves (2P Reserves).
“**3D seismic**”	geophysical data that depicts the subsurface strata in three dimensions
“**4D seismic**”	geophysical data that involves comparing the results of 3D seismic surveys at different times in the life of an oil and/or gas field
“**accumulation**”	an individual body of moveable petroleum. A known accumulation (one determined to contain Reserves or Contingent Resources) must have been penetrated by a well

"**API**"	American Petroleum Institute
"**API gravity**"	a measure of density based on density of oil at 15.6 degrees Celsius
"**appraisal well**"	well drilled to assess characteristics (such as flow rate or volume) of a proven hydrocarbon accumulation
"**Atlantic Margins**"	a passive margin which lies within a plate at the boundary between continental and oceanic crust
"**back-in rights**"	a reversionary interest in a lease which entitles a party to a specified share of the working interest when the assignee has recovered specified costs from production
"**barrel**" or "**b**" or "**bbl**"	a stock tank barrel, a standard measure of volume for oil, condensate and natural gas liquids, which equals 42 U.S. gallons
"**Bscf**"	billions of cubic feet at standard conditions
"**bcpd**"	barrels of condensate per day
"**bcm**"	billions of cubic meters
"**block**"	a designated area of 250 square kilometers or a subpart thereof, comprising one-thirtieth of the a quadrant
"**boe**"	barrels of oil equivalent
"**boepd**"	barrels of oil equivalent per day
"**bopd**"	barrels of oil per day
"**Brent**"	a particular type of crude oil that is a light, sweet oil produced in the North Sea with most of it being refined in Northwest Europe. Brent is a benchmark oil
"**burner tip**"	the physical point at which natural gas is consumed
"**bwpd**"	barrels of water per day

"CALM Buoy" .... a Catenary Anchor Leg Mooring (CALM) buoy is a description of how the buoyed platform is anchored to the seabed. CALM Buoys can be used offshore in deep water to allow ships to offload or load liquid cargo (e.g., crude oil) without the need for a jetty extension into the deeper water

"christmas tree" .... an assembly of valves, spools and fittings used for both surface and subsea oil, gas and water injection wells to control the flow out of the wells

"crude oil" .... unrefined oil

"Contingent Resources" .... those quantities of oil and gas estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies

"Dated Brent" .... a cargo of Brent that has been assigned a date when it will be loaded onto a tanker

"ESP well" .... an electrical submersible pump well.

"exploration well" .... a well drilled to find hydrocarbons in an unproved area or to extend significantly a known oil or natural gas reservoir

"farm-down" or "farm-out" .... to assign an interest in a license to another party

"farm-in" .... to acquire an interest in a license from another party

"field" .... an area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition

"formation" .... a body of rock that is sufficiently distinctive and continuous that it can be mapped

"FPSO" .... a floating production, storage and offloading vessel used by the offshore oil and gas industry for the processing of hydrocarbons and for storage of oil

"FSO" .... a floating storage and offloading vessel used only to store and offload oil (and not process it)

"FTG survey" .... full tensor gradiometry gravity survey

"**Full Tensor Gradiometry**" .... a method of measuring the density of the subsurface to detect subsurface anomalies, which can then be used to more accurately locate oil, gas and mineral deposits

"**heavy crude**" .... crude oil that generally has an API gravity of 22 degrees or less

"**hub-class commercial discovery**" .... smaller oil and gas field discoveries within a region that, individually, would not be economically feasible to develop, but when aggregated reach a commercial development threshold

"**hydrocarbons**" .... compounds formed primarily from the elements hydrogen and carbon and existing in solid, liquid or gaseous forms

"**ICE Brent**" .... a futures contract for Brent based on delivery with an option to cash settle

"**kb/d**" .... thousand barrels per day

"**kboepd**" .... thousand barrels of oil equivalent per day

"**lifting**" .... the process of loading a tanker with oil or otherwise transporting production from a production site to a terminal or place of sale

"**light crude**" .... crude that generally has an API gravity of 38 degrees or more

"**liquid fuels**" .... all petroleum, which includes crude oil and products of petroleum refining, natural gas liquids, biofuels and liquids derived from other hydrocarbon sources but does not include LNG and liquid hydrogen

"**LNG**" .... liquefied natural gas

"**LPG**" .... liquefied petroleum gas

"**mb/d**" .... thousand barrels per day

"**mcm/d**" .... million cubic meters per day

"**MMbbl**" .... million barrels of oil

"**MMbblpd**" .... million barrels of oil per day

"**MMboe**" .... million barrels of oil equivalent

“**MMBtu**” .... million British thermal units

“**NGL**” .... natural gas liquids

“**OIP**” .... the amount of crude first estimated to be in a reservoir. Oil in place differs from oil reserves, as OIP refers to the total amount of oil that is potentially in a reservoir and not the amount of oil that can be recovered.

“**overlift**”... oil lifted at a field by a commercial partner at the balance sheet date that exceeds such partner’s working interest in such field

“**play**”.. a project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in an effort to define specific leads or prospects

“**Possible Reserves**” .... those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves

“**PRMS**”... the Petroleum Resources Management System.

“**Probable Reserves**”.. those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves

“**production**” .... the cumulative quantity of oil and gas that has been recovered at a given date

“**production well**” .... a well drilled to obtain production from a proven oil or gas field. Production wells may be used either to extract hydrocarbons from a field or to inject water or gas into a reservoir to improve production

“**prospect**” .... a project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target

“**Proved Reserves**”... are those quantities of oil and gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations

“**PSC**” production sharing contracts

"quadrant" .... a designated area of one degree longitude by one degree latitude

"Recovery Factor"... is the recoverable amount of hydrocarbon initially in place, normally expressed as a percentage. The recovery factor is a function of the displacement mechanism. An important objective of enhanced oil recovery is to increase the Recovery Factor.

"reserve life" .... the quotient of dividing volume of reserves as of a given date by the volume of production during a given period

"reserve-replacement ratio" .... the quotient of dividing the volume of 2P Reserves added during a given period by the volume produced during that period

"Reserves".. are those quantities of petroleum anticipated commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions

"reservoir".. a subsurface body of rock having sufficient porosity and permeability to store and transmit fluids. A reservoir is a critical component of a complete oil and gas system

"Russian Export Blend"..................................... a medium, sour crude oil with an API gravity of approximately 32 and a sulfur content of approximately 1.2%, the Russian benchmark blend

"seal"... a relatively impermeable rock, commonly shale, anhydrite or salt that forms a barrier or cap above and around reservoir rock such that fluids cannot migrate beyond the reservoir. A seal is a critical component of a complete oil and gas system

"seismic survey"... a method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can be done in two, three or four dimensional form. See "*3D seismic*" and "*4D seismic*"

"single point mooring" .... a loading buoy anchored offshore that serves as a mooring point and interconnect for tankers loading or offloading gas or liquid products

"SPE"... the Society of Petroleum Engineers.

"SPEE" .... the Society of Petroleum Evaluation Engineers “**subsea manifold**”.. a large metal piece of equipment, made up of pipes and valves and designed to transfer oil or gas from wellheads into a pipeline

“**underlift**”... oil lifted at a field by a commercial partner at the balance sheet date that is less than its working interest in such field

“**upstream**”.. activities related to the exploration, appraisal, development and extraction of crude oil, condensate and gas

“**wellhead**”... all connections, valves, nozzles, pressure gauges, thermometers, installed at the exits from a production well

“**West Texas Intermediate**”................................. a light, sweet crude oil with an API gravity of approximately 40 and a sulfur content of approximately 0.3%, the U.S. benchmark blend

“**wildcat**”.. wells drilled outside of and not in the vicinity of known oil or gas fields

“**workover**”.. refers to any kind of oil well intervention involving invasive techniques, such as repairing lines and casing or removing sand build up

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INDEPENDENT REVIEW REPORT TO ENQUEST PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the Group Income Statement, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Cash Flows and related notes 1 to 14.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the company a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
5 September 2022

GROUP INCOME STATEMENT

For the six months ended 30 June 2022

	Notes	2022 Business performance $'000	2022 Remeasurements and exceptional items (note 4) $'000	2022 Reported in period $'000	2021 Business performance $'000	2021 Remeasurements and exceptional items (note 4) $'000	2021 Reported in period $'000
		Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
Revenue and other operating income	5	**943,507**	**(104,672)**	**838,835**	518,287	(36,973)	481,314
Cost of sales		**(585,601)**	**(481)**	**(586,082)**	(333,262)	–	(333,262)
Gross profit/(loss)		**357,906**	**(105,153)**	**252,753**	185,025	(36,973)	148,052
Net impairment reversal		**–**	**10,122**	**10,122**	–	–	–
General and administration expenses		**(3,063)**	**–**	**(3,063)**	(130)	–	(130)
Other income		**62,300**	**4,061**	**66,361**	4,333	27,490	31,823
Other expenses		**(1,019)**	**(30,996)**	**(32,015)**	(13,873)	–	(13,873)
Profit/(loss) from operations before tax and finance income/(costs)		**416,124**	**(121,966)**	**294,158**	175,355	(9,483)	165,872
Finance costs		**(94,107)**	**(17,870)**	**(111,977)**	(86,603)	(30,299)	(116,902)
Finance income		**391**	**–**	**391**	102	–	102
Profit/(loss) before tax		**322,408**	**(139,836)**	**182,572**	88,854	(39,782)	49,072
Income tax		**(142,382)**	**163,353**	**20,971**	19,411	(124,855)	(105,444)
Profit/(loss) for the year attributable to owners of the parent		**180,026**	**23,517**	**203,543**	108,265	(164,637)	(56,372)
Total comprehensive profit/(loss) for the period, attributable to owners of the parent				**203,543**			(56,372)

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

	Notes	2022 Business performance	2022 Reported in period	2021 Business performance	2021 Reported in period
Earnings per share	6	**$**	**$**	$	$
Basic		**0.098**	**0.111**	0.066	(0.034)
Diluted		**0.096**	**0.109**	0.065	(0.034)

The attached notes 1 to 14 form part of these condensed Group financial statements.

GROUP BALANCE SHEET
At 30 June 2022

	Notes	30 June 2022 $'000	31 December 2021 $'000
		Unaudited	*Audited*
ASSETS			
Non-current assets			
Property, plant and equipment	7	**2,672,877**	2,821,998
Goodwill		**134,400**	134,400
Intangible oil and gas assets		**40,193**	47,667
Deferred tax assets		**735,049**	702,970
Other long term assets	9	**6**	6
		3,582,525	3,707,041
Current assets			
Inventories		**90,110**	73,023
Trade and other receivables		**311,373**	296,068
Current tax receivable		**2,050**	2,368
Cash and cash equivalents		**369,720**	286,661
Other financial assets	9	**1,203**	472
		774,456	658,592
TOTAL ASSETS		**4,356,981**	4,365,633
EQUITY AND LIABILITIES			
Equity			
Share capital and premium		**392,196**	392,196
Share-based payment reserve		**8,859**	6,791
Retained earnings		**325,312**	121,769
TOTAL EQUITY		**726,367**	520,756
Non-current liabilities			
Borrowings	8	**50,000**	191,109
Bonds	8	**1,125,069**	1,081,596
Lease liabilities		**403,171**	442,500
Contingent consideration	10	**402,433**	380,301
Provisions	11	**730,821**	754,266
Deferred tax liabilities		**2,932**	3,418
		2,714,426	2,853,190
Current liabilities			
Borrowings	8	**65,676**	210,505
Lease liabilities		**136,874**	128,281
Contingent consideration	10	**54,704**	30,477
Provisions	11	**82,842**	140,676
Trade and other payables		**400,298**	420,544
Other financial liabilities	9	**161,789**	55,247
Current tax payable		**14,005**	5,957
		916,188	991,687
TOTAL LIABILITIES		**3,630,614**	3,844,877
TOTAL EQUITY AND LIABILITIES		**4,356,981**	4,365,633

The attached notes 1 to 14 form part of these condensed Group financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital and share premium $'000	Share-based payments reserve $'000	Retained earnings $'000	Total $'000
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*
Balance at 1 January 2021	345,420	1,016	(255,219)	91,217
Profit/(loss) for the period	–	–	(56,372)	(56,372)
Total comprehensive loss for the period	–	–	(56,372)	(56,372)
Share-based payment	–	3,515	–	3,515
Balance at 30 June 2021	**345,420**	**4,531**	**(311,591)**	**38,360**
Balance at 1 January 2022	**392,196**	**6,791**	**121,769**	**520,756**
Profit/(loss) for the period	**–**	**–**	**203,543**	**203,543**
Total comprehensive profit for the period	**–**	**–**	**203,543**	**203,543**
Share-based payment	**–**	**2,068**	**–**	**2,068**
Balance at 30 June 2022	**392,196**	**8,859**	**325,312**	**726,367**

The attached notes 1 to 14 form part of these condensed Group financial statements.

GROUP STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Notes	**30 June 2022 $'000** *Unaudited*	30 June 2021 $'000 *Unaudited*
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	13	**522,664**	287,879
Cash received from insurance		**8,268**	–
Cash received/(paid) on sale/(purchase) of financial instruments		**(139)**	–
Decommissioning spend		**(28,194)**	(38,661)
Income taxes paid		**(4,224)**	(2,276)
Net cash flows from/(used in) operating activities		**498,375**	246,942
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(52,113)**	(14,986)
Purchase of intangible oil and gas assets		**(2,578)**	(936)
Repayment of Magnus contingent consideration – Profit share	10	**–**	(968)
Acquisitions		**–**	(3,000)
Interest received		**256**	83
Net cash flows (used in)/from investing activities		**(54,435)**	(19,807)
FINANCING ACTIVITIES			
Proceeds of loans and borrowings		**67,440**	–
Repayment of loans and borrowings		**(300,089)**	(88,170)
Repayment of Magnus contingent consideration – Vendor loan	10	**–**	(11,362)
Repayment of obligations under leases		**(59,279)**	(57,286)
Interest paid		**(52,513)**	(15,795)
Other finance costs paid		**–**	(1,236)
Net cash flows from/(used in) financing activities		**(344,441)**	(173,849)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**99,499**	53,286
Net foreign exchange on cash and cash equivalents		**(16,441)**	(1,082)
Cash and cash equivalents at 1 January		**286,662**	222,830
CASH AND CASH EQUIVALENTS AT 30 June		**369,720**	275,034
Reconciliation of cash and cash equivalents			
Cash and cash equivalents		**360,241**	244,331
Restricted cash[1]		**9,479**	30,703
Cash and cash equivalents per balance sheet		**369,720**	275,034

(i) At 30 June 2022, restricted cash includes $7.8 million on deposit relating to bank guarantees for the Group's Malaysian assets and $1.7 million related to cash collateralised letters of credit

The attached notes 1 to 14 form part of these condensed Group financial statements.

NOTES TO THE HALF YEAR CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2022

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 principal activities of the Company and its subsidiaries (together the 'Group') are responsibly to optimise production, leverage existing infrastructure, deliver a strong decommissioning performance and explore new energy and further decarbonisation opportunities. The Group's half year condensed financial statements for the six months ended 30 June 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 5 September 2022.

2. Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the UK. 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 interim report does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2021.

The financial information contained in this announcement does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006.

Consolidated statutory accounts for the year ended 31 December 2021, on which the auditor gave an unqualified audit report, have been filed with the Registrar of Companies.

The financial statements have been prepared on the going concern basis. Further information relating to the use of the going concern assumption is provided in the 'Going Concern' section of the Financial Review as set out on page 12. The interim financial statements have been reviewed by the auditor and its report to the Company is included within these interim financial statements.

Accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements for the six months ended 30 June 2022 are materially consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2021. Any other standard, interpretation or amendment that was issued but not yet effective has not been adopted by the Group. Critical accounting judgements and key sources of estimation uncertainty were disclosed in the Group's 2021 annual report and accounts. These are reconsidered at the end of each reporting period to determine if any changes are required to judgements and estimates as a result of current market conditions.

Recoverability of asset carrying values - Oil price

The Group's un-hedged oil price assumptions were revised during the first half of 2022 as shown below. The assumptions up to 2024 were increased to reflect the material increase in oil prices in the first half of 2022 following the Russia-Ukraine conflict and improved demand outlook. For periods after 2025, the Group's longer term price assumption is unchanged from that disclosed in the Group's 2021 annual report and accounts at $60/bbl (in real 2021 terms) inflated at 2% per annum from 2025.

	Second half 2022	2023	2024
Brent oil ($/bbl)	100	90	80

The price assumptions used at the end of 2021 were $75.0/bbl (2022), $70.0/bbl (2023), $70.0/bbl (2024) and $60.0/bbl real thereafter, inflated at 2.0% per annum from 2025.

The discount rate used in impairment testing has been increased to 11% following the market volatility in the first half of 2022 and the increase in interest rates (2021: 10%).

New and amended standards adopted by the Group

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

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

3. Segment information

Segment information for the six month period is as follows:

Period ended 30 June 2022 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue and other operating income:						
Revenue from contracts with customers	**1,032,192**	**72,471**	**–**	**1,104,663**	**–**	**1,104,663**
Other operating income	**1,029**	**–**	**138**	**1,167**	**(266,995)**	**(265,828)**
Total revenue and other operating income	**1,033,221**	**72,471**	**138**	**1,105,830**	**(266,995)**	**838,835**
Segment profit/(loss)(ii)	**536,871**	**27,042**	**1,527**	**565,440**	**(271,282)**	**294,158**

Period ended 30 June 2021 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue and other operating income:						
Revenue from contracts with customers	502,071	46,782	–	548,853	–	548,853
Other operating income(i)	2,232	–	110	2,342	(69,881)	(67,539)
Total revenue and other operating income	504,303	46,782	110	551,195	(69,881)	481,314
Segment profit/(loss)(ii)	215,805	15,617	(3,826)	227,596	(61,724)	165,872

(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

Reconciliation of profit/(loss):

	Period ended 30 June 2022 $'000	Period ended 30 June 2021 $'000
Segment profit/(loss)	**565,440**	227,596
Finance income	**391**	102
Finance expense	**(111,977)**	(116,902)
Gain/(loss) on derivatives(i)	**(271,282)**	(61,724)
Profit/(loss) before tax	**182,572**	49,072

(i) Includes $166.1 million realised losses (2021: $24.7 million realised losses) on derivatives and $105.2 million unrealised losses (2021: $37.0 million unrealised losses) on derivatives

4. Remeasurements and exceptional items

Period ended 30 June 2022 $'000	**Fair value remeasurement**(i)	**Impairments and write offs**(ii)	**Other**(iii)	**Total**
Revenue and other operating income	**(104,672)**	**–**	**–**	**(104,672)**
Cost of sales	**(481)**	**–**	**–**	**(481)**
Net impairment reversal	**–**	**10,122**	**–**	**10,122**
Other income	**4,061**	**–**	**–**	**4,061**
Other expense	**(30,996)**	**–**	**–**	**(30,996)**
Finance costs	**–**	**–**	**(17,870)**	**(17,870)**
	(132,088)	**10,122**	**(17,870)**	**(139,836)**
Tax on items above	**54,461**	**(4,049)**	**5,046**	**55,458**
Recognition of undiscounted deferred tax asset(iv)	**–**	**107,895**	**–**	**107,895**
	(77,627)	**113,968**	**(12,824)**	**23,517**

Period ended 30 June 2021 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	(36,973)	–	–	(36,973)
Other income	27,490	–	–	27,490
Finance costs	–	–	(30,299)	(30,299)
	(9,483)	–	(30,299)	(39,782)
Tax on items above	3,315	–	11,350	14,665
Derecognition of undiscounted deferred tax asset(iv)	–	(139,520)	–	(139,520)
	(6,168)	(139,520)	(18,949)	(164,637)

(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 $104.7 million (2021: $37.0 million). Net other expense relates to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure of $26.9 million (note 10) (2021: Other income $27.5 million)

(ii) Net impairments reversal totalling $10.1 million (note 7) (2021: nil)

(iii) Other items mainly relate to unwinding of discount on contingent consideration on the 75% acquisition of Magnus and associated infrastructure of $17.9 million (note 10) (2021: $30.3 million)

(iv) Non-cash deferred tax credit (2021: charge) following a reassessment of deferred tax balances reflecting revisions to forecast assumptions

5. Revenue

Revenue and other operating income

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. Further details are described in the last annual financial statements.

	Period ended 30 June 2022 $'000	Period ended 30 June 2021 $'000
Revenue from contracts with customers:		
Revenue from crude oil sales	**851,206**	490,536
Revenue from gas and condensate sales(i)	**252,907**	57,850
Tariff revenue	**550**	467
Total revenue from contracts with customers	**1,104,663**	548,853
Rental income from vessels	**–**	702
Realised (losses)/gains on oil derivative contracts	**(162,323)**	(32,908)
Other	**1,167**	1,640
Business performance revenue and other operating income	**943,507**	518,287
Unrealised (losses)/gains on oil derivative contracts(ii)	**(104,672)**	(36,973)
Total revenue and other operating income	**838,835**	481,314

(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 (note 4)

6. 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	
	Period ended 30 June		Period ended 30 June		Period ended 30 June	
	2022 $'000	2021 $'000	**2022 million**	2021 million	**2022 $**	2021 $
Basic	**203,543**	(56,372)	**1,833.9**	1,649.3	**0.111**	**(0.034)**
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**36.9**	26.7	**–**	–
Diluted(i)	**203,543**	(56,372)	**1,870.8**	1,676.0	**0.109**	(0.034)
Basic (excluding remeasurements and exceptional items)	**180,026**	108,265	**1,833.9**	1,649.3	**0.098**	0.066
Diluted (excluding remeasurements and exceptional items)(i)	**180,026**	108,265	**1,870.8**	1,676.0	**0.096**	0.065

(i) Potential ordinary shares granted under share-based incentive schemes are not treated as dilutive when they would decrease a loss per share

7. Property, plant and equipment

	Oil and gas assets $'000	**Office furniture, fixtures and fittings $'000**	**Right-of-use assets $'000**	**Total $'000**
Cost:				
At 1 January 2022	**8,997,353**	**65,385**	**867,893**	**9,930,631**
Additions	**38,027**	**532**	**16,558**	**55,117**
Disposal	**–**	**–**	**(12,869)**	**(12,869)**
Change in decommissioning provision	**(35,301)**	**–**	**–**	**(35,301)**
At 30 June 2022	**9,000,079**	**65,917**	**871,582**	**9,937,578**
Accumulated depreciation, depletion and impairment:				
At 1 January 2022	**6,650,304**	**53,829**	**404,500**	**7,108,633**
Charge for the year	**145,524**	**1,489**	**30,491**	**177,504**
Net impairment reversal	**(10,122)**	**–**	**–**	**(10,122)**
Disposal	**–**	**–**	**(11,314)**	**(11,314)**
At 30 June 2022	**6,785,706**	**55,318**	**423,677**	**7,264,701**
Net carrying amount:				
At 30 June 2022	**2,214,373**	**10,599**	**447,905**	**2,672,877**
At 31 December 2021	2,347,049	11,556	463,393	2,821,998
At 30 June 2021	2,030,409	12,569	468,857	2,511,835

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

	Impairment reversal		Recoverable amount(i)	
	Period ended 30 June 2022 $'000	Year ended 31 December 2021 $'000	**Period ended 30 June 2022 $'000**	Year ended 31 December 2021 $'000
North Sea	**10,122**	39,715	**104,465**	1,496,219
Net pre-tax impairment reversal	**10,122**	39,715		

(i) Recoverable amount has been determined on a fair value less costs of disposal basis. 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

The 2022 net impairment reversal of $10.1 million relates to producing assets in the UK North Sea. The increase in EnQuest's near-term future oil price assumptions were largely offset by the increase in discount rate from 10% to 11% and impact of tax including the recently introduced UK Energy Profit Levy. The CGUs on which impairment reversals relate was $14.6m for the GKA and Scolty/Crathes CGU. Impairment losses of $4.5 million were incurred relating to the Alba CGU.

The 2021 net impairment reversal of $39.7 million relates to producing assets in the UK North Sea. Impairment reversals were primarily driven by an increase in EnQuest's near-term future oil price assumptions. The CGUs on which impairment reversals relate were $53.7 million for Kraken and $6.1 million for Alba. In addition, impairment losses of $20.1 million were incurred relating to the GKA and Scolty/Crathes CGU, primarily as a result of forecast increased costs and lower production.

Sensitivity analyses
Management tested the impact of a change in cash flows in FVLCD impairment testing arising from a 10% change in price assumptions.

Price reductions of this magnitude in isolation could indicatively lead to a reduction in the carrying amount of EnQuest's oil and gas properties by approximately $244.0 million, which is approximately 9% of the net book value of property, plant and equipment as at 30 June 2022. Price increases could indicatively lead to an increase in the carrying amount of EnQuest's oil and gas properties by approximately $202.2 million.

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 changes in costs and 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.

Management also tested the impact of a one percentage point change in the discount rate used for FVLCD impairment testing of oil and gas properties. If the discount rate was one percentage point higher across all tests performed, a net impairment would have been recognised in first half of 2022 of approximately $34.6 million, a difference of $44.7 million on the net impairment reversal recognised at 30 June 2022. If the discount rate was one percentage point lower, the net impairment reversal recognised would have been approximately $37.7 million higher.

8. Loans and borrowings

	30 June 2022 $'000	31 December 2021 $'000
Borrowings	**115,676**	401,614
Bonds	**1,125,069**	1,081,596
	1,240,745	1,483,210

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

	30 June 2022			31 December 2021		
	Principal $'000	**Fees $'000**	**Total $'000**	Principal $'000	Fees $'000	Total $'000
RBL(i)	**115,000**	**(7,673)**	**107,327**	415,000	(23,250)	391,750
SVT Working Capital facility	**8,349**	**–**	**8,349**	9,864	–	9,864
Total borrowings	**123,349**	**(7,673)**	**115,676**	424,864	(23,250)	401,614
Due within one year			**65,676**			210,505
Due after more than one year			**50,000**			191,109
Total borrowings			**115,676**			401,614

(i) During the period to 30 June 2022, the Group repaid $300.0 million of the outstanding principal, well ahead of the planned amortisation schedule. At 30 June 2022, after allowing for letter of credit utilisation of $52.7 million, $97.3 million remained available for drawdown under the facility.

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

	30 June 2022			31 December 2021		
	Principal $'000	**Fees $'000**	**Total $'000**	Principal $'000	Fees $'000	Total $'000
High yield bond(i)	**827,166**	**(1,254)**	**825,912**	827,166	(1,725)	825,441
Retail bond 7%(ii)	**136,096**	**–**	**136,096**	256,574	(419)	256,155
Retail bond 9%(iii)	**163,061**	**–**	**163,061**	–	–	–
Total bonds due after more than one year	**1,126,323**	**(1,254)**	**1,125,069**	1,083,740	(2,144)	1,081,596

(i) The total carrying value of the high yield bond as at 30 June 2022 is $825.9 million (2021: $825.4 million). This includes bond principal of $827.2 million (2021: $827.2 million) less unamortised fees of $1.3 million (2021: $1.7 million). The high yield bond does not include accrued interest, including IFRS 9 EIR adjustment, of $14.1 million (2021: $14.8 million) which is reported within trade and other payables.

(ii) During the period, following the successful exchange and cash offer, £79.3 million of the Retail bond 7% were exchanged for the Retail Bond 9%. This resulted in a reduction of principal by $104.4 million. The total carrying value of the Retail bond 7% at 30 June 2022 is $136.1 million (2021: $256.2 million). This includes bond principal of $136.1 million (2021: $256.6 million) less unamortised fees of nil (2021: $0.4 million). The Retail bond 7% does not include accrued interest, including IFRS 9 EIR adjustment, of $3.8 million (2021: $13.5 million), which is reported within trade and other payables.

(iii) On 27 April 2022, the Group issued a new 9% retail bond ('Retail bond 9%'), following a successful exchange and open offer. The principal of the Retail Bond 9% raised by the exchange and open offer totalled £133.3 million. This was made up of £79.3 million exchanging from the Retail Bond 7% and £54.0 million new bond holders. The total carrying value of the Retail bond 9% as at 30 June 2022 is $163.1 million. This does not include accrued interest, including IFRS 9 EIR adjustment, of $2.2 million, which is reported within trade and other payables.

9. Other financial assets and financial liabilities

(a) Summary as at 30 June 2022

	30 June 2022 Assets $'000	30 June 2022 Liabilities $'000	31 December 2021 Assets $'000	31 December 2021 Liabilities $'000
Fair value through profit or loss:				
Derivative commodity contracts	**1,203**	**161,780**	–	55,245
Derivative foreign exchange contracts	**–**	**–**	382	–
Commodity futures	**–**	**–**	–	2
Derivative UKAs contracts	–	**9**	90	–
Total current	**1,203**	**161,789**	472	55,247
Fair value through profit or loss:				
Quoted equity shares	**6**	**–**	6	–
Total non-current	**6**	**–**	6	–

(b) Income statement impact

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

Period ended 30 June 2022	**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	**(165,053)**	**(105,977)**	**–**	**–**
Commodity swaps	**1,387**	**1,303**	**–**	**–**
Commodity futures	**1,343**	**2**	**–**	**–**
Foreign exchange contracts	**–**	**–**	**(3,546)**	**(382)**
UKA contracts	**–**	**–**	**(260)**	**(99)**
	(162,323)	**(104,672)**	**(3,806)**	**(481)**

Period ended 30 June 2021	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	(28,600)	(35,786)	–	–
Commodity swaps	(3,610)	(1,187)	–	–
Commodity futures	1,693	–	–	–
EUA/UKA contracts	–	–	8,157	–
	(30,517)	(36,973)	8,157	–

(c) Fair value measurement

30 June 2022	**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					
Oil commodity derivative contracts		**1,203**	**–**	**1,203**	**–**
Quoted equity shares		**6**	**6**	**–**	**–**
Total financial assets measured at fair value		**1,209**	**6**	**1,203**	**–**
Liabilities measured at fair value:					
Derivative financial liabilities at FVPL					
Oil commodity derivative contracts		**161,789**	**–**	**161,789**	**–**
Forward UKA contracts		**9**	**–**	**9**	**–**
Other financial liabilities measured at FVPL					
Contingent consideration		**457,137**	**–**	**–**	**457,137**
Total liabilities measured at fair value		**618,935**	**–**	**161,798**	**457,137**
Liabilities measured at amortised cost for which fair values are disclosed below:					
Interest-bearing loans and borrowings	8	**123,349**	**–**	**–**	**123,349**
Obligations under leases		**540,045**	**–**	**–**	**540,045**
Retail bond 7%	8	**132,353**	**132,353**	**–**	**–**
Retail bond 9%	8	**158,789**	**158,789**	**–**	**–**
High yield bond	8	**740,876**	**740,876**	**–**	**–**
Total liabilities measured at amortised cost for which fair values are disclosed		**1,695,412**	**1,032,018**	**–**	**663,394**

30 June 2021	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					
Forward UKA contracts		90	–	90	–
Forward foreign currency contracts		382	–	382	–
Quoted equity shares		6	6	–	–
Total financial assets measured at fair value		478	6	472	–
Liabilities measured at fair value:					
Derivative financial liabilities at FVPL					
Oil commodity derivative contracts		55,247	–	55,247	–
Other financial liabilities measured at FVPL					
Contingent consideration		410,778	–	–	410,778
Total liabilities measured at fair value		466,025	–	55,247	410,778
Liabilities measured at amortised cost for which fair values are disclosed below:					
Interest-bearing loans and borrowings	8	424,864	–	–	424,864
Obligations under leases		570,781	–	–	570,781
Retail bond 7%	8	244,387	244,387	–	–
High yield bond	8	773,499	773,499	–	–
Total liabilities measured at amortised cost for which fair values are disclosed		2,013,531	1,017,886	–	995,645

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 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 10. There have been no transfers between Level 1 and Level 2 during the period (2021: 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. 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).

10. Contingent consideration

	Magnus 75% $'000	Magnus Linked decommissioning liability $'000	Golden Eagle Contingent Consideration $'000	Total $'000
At 31 December 2021	**344,627**	**20,976**	**45,175**	**410,778**
Change in fair value	**30,996**	**(4,061)**	**–**	**26,935**
Unwinding of discount	**16,821**	**1,049**	**1,554**	**19,424**
At 30 June 2022	**392,444**	**17,964**	**46,729**	**457,137**
Classified as:				
Current	**52,024**	**2,680**	**–**	**54,704**
Non-current	**340,420**	**15,284**	**46,729**	**402,433**
	392,444	**17,964**	**46,729**	**457,137**

75% Magnus acquisition contingent consideration
The contingent consideration was fair valued at 30 June 2022, which resulted in an increase in fair value of $31.0 million reflecting a change in the Groups short term oil price assumptions partially offset by a 1% increase in the discount rate to 11% (2021: decrease of $28.7 million reflecting the change in the payment profiles). The fair value accounting effect and finance costs of $16.8 million (2021: $29.6 million) on the contingent consideration were recognised through remeasurements and exceptional items in the Group income statement. Within the statement of cash flows, the profit share element of the repayment, nil (2021: $1.0 million), is disclosed separately under investing activities. At 30 June 2022, the contingent consideration was $392.4 million (31 December 2021: $344.6 million). The contingent profit sharing arrangement cap of $1 billion was not met as at 30 June 2022 in the present value calculations (2021: cap was not met).

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 30 June 2022, the amount due to BP calculated on an after-tax basis by reference to 30% of BP's decommissioning costs on Magnus was $18.0 million (31 December 2021: $21.0 million).

Golden Eagle contingent consideration
Part of the Golden Eagle acquisition consideration included an amount that was contingent on the average oil price between July 2021 and June 2023. 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 $25.0 million is payable, or if the Dated Brent average crude price equals or exceeds $65/bbl, upon which $50.0 million is payable. The contingent consideration liability is discounted at 7% and is calculated principally based on the oil price assumptions as disclosed in note 2. At 30 June 2022, the contingent consideration was valued at $46.7 million.

11. Provisions

	Decommissioning provision $'000	Thistle decommissioning provision $'000	Other provisions $'000	Total $'000
At 31 December 2021	**835,721**	**43,930**	**15,291**	**894,942**
Additions	**1,450**	**–**	**1,223**	**2,673**
Changes in estimates	**(58,333)**	**(9,260)**	**(730)**	**(68,323)**
Unwinding of discount	**8,500**	**439**	**–**	**8,939**
Utilisation	**(22,657)**	**(1,247)**	**(500)**	**(24,404)**
Other	**–**	**(86)**	**(78)**	**(164)**
At 30 June 2022	**764,681**	**33,776**	**15,206**	**813,663**
Classified as:				
Current	**58,433**	**9,203**	**15,206**	**82,842**
Non-current	**706,248**	**24,573**	**–**	**730,821**
	764,681	**33,776**	**15,206**	**813,663**

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. The Group's decommissioning provision has reduced by $71.0 million in the period, primarily reflecting a favourable foreign exchange rate movement and the ongoing decommissioning programmes at Heather and the Dons. At 30 June 2022, an estimated $322.7 million is expected to be utilised between one and five years (31 December 2021: $409.6 million), $60.1 million within six to ten years (31 December 2021: $81.4 million), and the remainder in later periods.

The Group enters into surety bonds principally to provide security for its decommissioning obligations. At 30 June 2022, the Group held surety bonds totalling $230.2 million (31 December 2021: $240.8 million).

Thistle decommissioning provision
At 30 June 2022, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Thistle and Deveron was $33.8 million (31 December 2021: $43.9 million), with the reduction mainly reflecting the change in estimate and utilisation in the period. Unwinding of discount of $0.4 million is included within finance income for the year ended 30 June 2022 (2021: $0.5 million).

Other provisions
During 2020, a riser at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform detached. A provision with respect to required repairs to remedy the damage caused was established. To date $4.4 million has been utilised and at 30 June 2022, the

provision was $1.5 million (31 December 2021: $1.5 million).

During 2021, the Group recognised $8.2 million in relation to disputes with third-party contractors. In 2022, one dispute was settled for $0.5 million and the other dispute is ongoing. At 30 June 2022, the provision was $7.3 million (31 December 2021: $8.2 million).

12. Commitments and contingencies

Capital commitments

At 30 June 2022, the Group had capital commitments amounting to $11.0 million (31 December 2021: $1.9 million).

Other commitments

In the normal course of business, the Group will obtain surety bonds, letters of credit and guarantees. At 30 June 2022, the Group held surety bonds totalling $230.2 million (31 December 2021: $240.8 million) to provide security for its decommissioning obligations.

Contingencies

The Group becomes involved from time to time in various claims and lawsuits arising in the ordinary course of its business. The Group 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 Group's financial position or profitability, nor, so far as the Group is aware, are any such proceedings pending or threatened.

13. Cash flow information

Cash generated from operations

	Notes	**Period ended 30 June 2022 $'000**	Period ended 30 June 2021 $'000
Profit/(loss) before tax		**182,572**	49,072
Depreciation	7	**3,295**	3,915
Depletion	7	**174,209**	153,085
Net impairment reversal		**(10,122)**	–
Net disposal/write down of inventory		**(360)**	983
Change in fair value of investments		**–**	1
Share-based payment charge		**2,068**	3,515
Change in contingent consideration		**46,359**	2,810
Change in provisions		**(22,860)**	14,754
Amortisation of option premiums		**658**	–
Unrealised (gain)/loss on commodity financial instruments		**104,672**	36,973
Unrealised (gain)/loss on other financial instruments		**481**	–
Unrealised exchange (gain)/loss		**(20,686)**	4,796
Net finance expense		**84,777**	78,042
Operating profit before working capital changes		**545,063**	347,946
Decrease/(increase) in trade and other receivables		**2,214**	(121,006)
Decrease/(increase) in inventories		**(17,771)**	470
(Decrease)/increase in trade and other payables		**(6,842)**	60,469
Cash generated from operations		**522,664**	287,879

Changes in liabilities arising from financing activities

	Loans and borrowings $'000	**Bonds $'000**	**Lease liabilities $'000**	**Total $'000**
At 31 December 2021	**(402,065)**	**(1,109,920)**	**(570,781)**	**(2,082,766)**
Cash movements:				
Repayments of loans and borrowings	**300,089**	**–**	**–**	**300,089**
Drawdown of loans and borrowings	**–**	**(71,163)**	**–**	**(71,163)**
Repayment of lease liabilities	**–**	**–**	**59,279**	**59,279**
Cash interest paid in period	**7,775**	**39,444**	**–**	**47,219**
Non-cash movements:				
Additions	**–**	**–**	**(16,294)**	**(16,294)**
Interest/finance charge payable	**(8,589)**	**(31,477)**	**(20,045)**	**(60,111)**
Fee amortisation	**(15,577)**	**(889)**	**–**	**(16,466)**
Foreign exchange adjustments	**1,426**	**28,941**	**6,364**	**36,731**
Disposal	**–**	**–**	**1,432**	**1,432**
Other non-cash movements	**45**	**–**	**–**	**45**
At 30 June 2022	**(116,896)**	**(1,145,064)**	**(540,045)**	**(1,802,005)**

Reconciliation of carrying value

	Loans and borrowings $'000	Bonds $'000	Lease liabilities $'000	Total $'000
Principal	**(123,349)**	**(1,126,323)**	**(540,045)**	**(1,789,717)**
Unamortised fees	**7,673**	**1,254**	**–**	**8,927**
Accrued interest	**(1,220)**	**(19,995)**	**–**	**(21,215)**
At 30 June 2022	**(116,896)**	**(1,145,064)**	**(540,045)**	**(1,802,005)**

14. Subsequent events

Energy Profits Levy

On 26 May 2022, the UK Government announced the introduction of an Energy Profits Levy ('EPL') on the profits earned from the production of oil and gas in the UK with effect from that date. The EPL enabling legislation, the Energy (Oil and Gas) Profits Levy Act 2022, was substantively enacted on 11 July 2022. The EPL is charged at the rate of 25 per cent on taxable profits in addition to ring fence corporation tax of 30 per cent and the Supplementary Charge of 10 per cent. The EPL tax is a temporary measure and as enacted will cease to apply on 31 December 2025.

As the legislation was not substantively enacted as at 30 June 2022, the tax charge in the half-year results does not include the impact of EPL for the period which will instead be reflected in the second half of 2022. If the EPL had been considered in the interim period, a cash tax liability of $20.0 million would be recognised of which $5.6 million would have been in respect of Business Performance in the period 26 May 2022 to 30 June 2022.

Had the EPL been fully enacted before 30 June 2022, these half-year results would have recognised an additional net deferred tax liability of $106.6 million at the period end.

The amounts disclosed above are provisional and the overall current and deferred tax impact for the year will be included in the full-year results.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge:

a) the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;

b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events and their impact during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

A list of current Directors is maintained on the EnQuest PLC website which can be found at www.enquest.com.

By the order of the Board

Amjad Bseisu

Chief Executive

5 September 2022

Independent Auditor’s Report
To the Members Of EnQuest PLC

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 2021 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (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 Statement of Cash Flows;
- the related notes 1 to 29 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, United Kingdom adopted international accounting standards and IFRSs as 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 we have not provided any non-audit services prohibited by the FRC’s Ethical Standard 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. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of oil and gas related assets and liabilities; and • Valuation of decommissioning liability. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was $20m which was determined on the basis of 3% of adjusted EBITDA (earnings before interest, tax, depreciation, amortisation and exceptional items). Our materiality represents 5.7% of reported profit before tax.
Scoping	EnQuest PLC has two significant operating segments, being the North Sea and Malaysia. They accounted for 100% of the group’s revenue, 100% of the group’s adjusted EBITDA and 100% of the group’s net assets.
Significant changes in our approach	Going concern has been removed as a key audit matter. In the prior year, there was a material uncertainty related to going concern due to the Revolving Credit Facility expiring and the new facility not being signed at the time of the publication of the group’s results. In June 2021 a new long term Reserves Base Lending Facility of $600 million was signed, as such we do not consider there to be a material uncertainty in relation to going concern at the date of this opinion.

4. Conclusions relating to going concern

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

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 evaluated the consistency of key inputs relating to future costs, hedging and production to other financial and operational information obtained during our audit;
- we have challenged management as to the reasonableness of commodity pricing assumptions applied, based on benchmarking to market data;
- we have agreed the available facilities to underlying agreements and external confirmation from debt providers and tested covenant calculation forecasts performed by management;
- we have assessed 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 assessed the adequacy of disclosures made in the Annual Report and Accounts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

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

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.

5.1. Valuation of oil and gas related assets and liabilities

Key audit matter description	We identified a key audit matter in relation to the valuation of oil and gas related assets and liabilities. More specifically we identified this around the forecast significant assumptions and estimates, such as commodity prices and discount rate, that impact the forecast future cash flows used for valuation purposes. These impact the following as part of this key audit matter: • Impairment charge and reversal on oil and gas assets; • Potential impairment of goodwill; • Valuation of Magnus contingent consideration; • Impairment of the parent company investment; and • Valuation of the deferred tax asset. *Management performed an impairment assessment for oil and gas assets and goodwill carrying value, by reference to IAS36. As at 31 December 2021, the net book value of oil and gas assets was $2,347 million (2020: $2,124 million) and management have recorded a pre-tax impairment reversal of $40 million (2020: $422 million impairment charge) against oil and gas assets, including related right of use assets, as disclosed in note 10.* *As at 31 December 2021, the net book value of goodwill was $134 million (2020: $134 million). No goodwill impairment charge has been recorded, as disclosed in note 11.* *The valuation of Magnus contingent consideration was $366 million (2020: $522 million) as at 31 December 2021, 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 for both the initial 25% acquisition in 2017 and the subsequent 75% acquisition in 2018.* *Management also performed an assessment of the parent company investment carrying value by reference to IAS 36 Impairment of Assets and IFRS 9 Financial Instruments. As at 31 December 2021, the net book value of investments in the parent company was $397 million (2020: $71 million) and management have recorded an impairment reversal of $319 million (2020: $1,072 million impairment charge), as disclosed in note 3 to the parent company financial statements.* *As at 31 December 2021, a deferred tax asset of $703m (2020: $660m) was recognised, based on the expected utilisation of historical tax losses, underpinned by the future profitability. Management identified an inconsistency in the prior year in the calculation of the deferred tax asset associated with the Magnus contingent consideration and the relevant estimated future cash flows used in the calculation of future taxable profits. As a result, the prior year deferred tax asset was restated. Further details are as disclosed in note 2.* 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 charge or reversal. There is a risk that these oil and gas assets and goodwill are not recoverable, or the reversal of previous impairments of oil and gas assets is required. The impairment reversal recorded in the year on oil and gas assets was primarily because of a change in the future commodity price assumptions. There was no impairment recognised on goodwill as the recoverable amount of estimated North Sea future cash flows was higher than its book value, including the carrying value of goodwill. 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 assessments include: • forecast future commodity prices, including the potential impact of climate change on those prices; • 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. Consistent assumptions are used in the impairment assessments, the valuation of the Magnus contingent consideration and the deferred tax assets. The group's Audit Committee has included this key audit matter in their Audit Committee Report for the year ended 31 December 2021 on pages 72 and 73.

How the scope of our audit responded to the key audit matter	**Procedures on the overall impairment review, Magnus contingent consideration valuation and valuation of the group's deferred tax asset** • we have understood management's process for identifying indicators of impairment and for performing their impairment assessment and related valuations; • we obtained an understanding of the relevant controls and then evaluated the associated design and implementation of such controls relating to the impairment assumptions, the Magnus contingent consideration modelling, deferred tax asset modelling and reviews; • we evaluated and challenged the key assumptions and inputs into the impairment and valuation models, which included performing sensitivity analysis, to evaluate the impact of selecting alternative assumptions. • we evaluated the reasonableness and supportability of current year changes to the key assumptions; • we worked with our modelling specialists to evaluate the arithmetical accuracy of the impairment and valuation models. We recalculated the impairment charges and headroom, as well as valuation changes, 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, Magnus contingent consideration and deferred tax assets for oil and gas price assumptions to reduced demand scenarios, whether due to climate change or other reasons. **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; • we performed sensitivity analysis on the pricing assumptions to determine the impact on the impairment conclusion and amount and the related changes to valuations of reasonably possible changes in the assumption; 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 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 agreed estimates of oil and gas reserves to third party reserve reports, assessing the competence, objectivity and capability of those third-party experts, using our own internal specialists; and • we challenged and evaluated the adequacy of the operating and capital cost assumptions within the model.

Procedures relating to the discount rate
- we independently evaluated the group's discount rates used in impairment tests, valuations 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
- we evaluated 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;
- we challenged the key assumptions within management's cash flow forecasts as described in this key audit matter;
- we tested the mechanical accuracy of the model; and
- we evaluated the adequacy of the parent company's disclosures regarding the investment impairment and intercompany recoverability in notes 3 and 4 of the Financial Statements.

Procedures relating to the carrying value of the deferred tax asset
- we evaluated the methodology applied in calculating the group's deferred tax assets and liabilities;
- we agreed the deferred tax balances relating to assets and liabilities recognised on the group's balance sheet to those assets and liabilities, applying the relevant tax rates;
- we agreed the inputs used in the group's calculations of tax losses to be recognised to the group's cash flow forecasts used for the purposes of impairment testing, as discussed further within this key audit matter; and
- we assessed the appropriateness of the carrying value of the closing deferred tax asset.

Key observations
- The group's future commodity price assumptions are within our acceptable range from external sources for the period to 2024. The commodity price assumptions from 2025 onwards are lower than our acceptable range, but this does not result in a material change in the impairment charge when considering the range of pricing assumptions for the life of each CGU;
- The group's discount rate is within the acceptable range calculated by our internal valuation specialists;
- From the work performed, we are satisfied that the impairment reversal recorded and the carrying value of the investments in subsidiaries are appropriate;
- The carrying value of the Magnus contingent consideration is reasonable. The significant assumptions and cash flows are consistent with the impairment model;
- The deferred tax asset recognition is appropriate and the carrying value is appropriate;
- We are satisfied that the prior year deferred tax restatement appropriately corrects the 2020 position; and
- Based on the procedures performed we are satisfied that the group's impairment and reversals are appropriately estimated in accordance with the requirements of IAS 36 *'Impairment of Assets'*, and the carrying value of the Magnus contingent consideration and deferred tax assets are appropriate.

5.2. Valuation of decommissioning liability

Key audit matter description

The decommissioning provision at 31 December 2021 was $880 million (2020: $831 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 cost estimates. The key assumptions and judgements underpinning the provision include:
- cessation of production dates;
- post cessation-of-production operating cost estimates;
- rates and norms assumptions;
- discount rate; and
- inflation rate.

The two key management estimates that have an increased likelihood of resulting in a material misstatement within the estimation are:
- internal well cost estimates (rig services; vessels; onshore time-writing costs) included in the decommissioning model; and
- internal cost reduction factors applied to the gross decommissioning cost estimates.

The Group's Audit Committee has included this key audit matter in their Audit Committee Report for the year ended 31 December 2021 on page 73.

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. **General procedures relating to the decommissioning model** • we held meetings with the group's internal experts responsible for determining the 2021 decommissioning estimates to understand the key changes in underlying assumptions and methodology applied; • we assessed the technical competence, objectivity and capability of internal and external experts; • we assessed decommissioning calculations for clerical accuracy and compliance with IAS 37 *'Provisions, Contingent Liabilities and Contingent Assets'*; • we challenged the group's key assumptions, outlined above, for reasonableness and consistency with the external market expectations (see below for procedures on internal well cost estimates and internal cost reduction factors); • 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 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 and benchmarked to peer and market rates; and • we assessed the duration assumptions for plug and abandonment of wells, by comparison to available benchmarking data and contradictory evidence available from active decommissioning projects or operator estimates. **Procedures on internal cost reduction factors** • we challenged the group's cost reduction factors applied to the decommissioning model through obtaining supporting evidence for the factors applied; and • benchmarking and considering contradictory evidence from peers.
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.

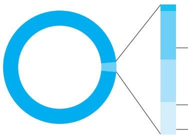
6. Our application of materiality

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	$20 million (2020: $16.5 million)	$10.3 million (2020: $1.1 million)
Basis for determining materiality	We determined group materiality on the basis of 3% of adjusted EBITDA (earnings before interest, tax, depreciation, amortisation, remeasurements and exceptional items) (2020: 3% of adjusted EBITDA). Management has presented a reconciliation of $743 million adjusted EBITDA to profit from continuing activities in the glossary to the financial statements on page 170.	We determined the parent company materiality based on 3% of net assets (2020: 3% of net assets).
Rationale for the benchmark applied	Adjusted 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 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% (2020: 60%) of group materiality	60% (2020: 60%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered factors including the size and nature and volume of uncorrected and corrected misstatements identified in the previous audit, the quality of the control environment, the stability of the finance team following restructuring in 2020, macro-economic factors such as commodity price volatility and geo-political instability, and management's willingness to correct errors identified in the prior year and current year.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $1m (2020: $0.8m), 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 components. Audit procedures were performed by the group audit team or the North Sea component and by the Malaysia component team for the Malaysia component.

The materiality applied by the Malaysia component for the 2021 year-end was $8.5 million (2020: $7.5m). The materiality applied by the UK component for the 2021 year-end was $15 million (2020: $12.5m).

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 adjusted EBITDA and 100% of the group's net assets, consistent with the prior year. The Malaysia component contributed 7% of the group's revenue, 7% of the group's adjusted EBITDA and 6% of the group's total assets (2020: 7% of the group's revenue, 4% of the group's adjusted 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, being the financial reporting system. We worked with our IT specialists to test the operating effectiveness of the general environment.

We have not relied on the operation of controls in the current year.

7.3. Our consideration of climate-related risks

We performed enquiries of management to understand the impact of climate-related risks and controls relevant to the group. We performed a review of the climate change risk assessment and related documentation prepared by management and considered the completeness and accuracy of the climate-related risks identified and summarised in the Task Force on Climate-related Financial Disclosures report on page 55.

Management identified key judgements and estimates with elevated climate-related risk, relating to impairment of oil and gas assets, valuation of contingent consideration, valuation of the decommissioning provision, valuation of deferred tax assets, and estimation of oil and gas reserves.

We considered whether the risks identified by management within their climate change risk assessment and related documentation were complete and challenged assumptions impacting the financial statements. The key piece of climate-related regulation enacted to date and impacting the group related to carbon costs and emission allowances. The key market-related matter which could have a material impact on the valuation of the items noted above is in respect of future demand for, and pricing of, oil and gas as the energy mix evolves in response to climate change risk and other matters.

We also performed a review of the disclosures within the Annual Report, with the involvement of our Environmental, Social and Governance specialists, and considered whether these were materially consistent with the financial disclosures, complete and consistent with our understanding of the climate-related risks, assumptions and judgements during the year. Both of our key audit matters are considered to contain climate-related risks, being the key market-related matter which could have a material impact on the valuation of oil and gas related assets and liabilities and valuation of the decommissioning provision. The procedures performed for these key audit matters are discussed in detail in the key audit matters section above.

7.4. Working with other auditors

The North Sea component was audited by the group audit team and we oversaw the Malaysia component audit through regular meetings and direct supervision. 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 below.

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 specialists 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:

- valuation of oil and gas related assets and liabilities;
- valuation of decommissioning provision; and
- crude oil revenue recognition – cut off.

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 the group 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, environmental laws and regulations in the countries in which the group operates.

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of oil and gas related assets and liabilities and the valuation of the decommissioning provision as key audit matters related to the potential risk of fraud. 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;
- for revenue recognition associated with the cut-off of crude oil sales, we tested a sample of invoices from a population of December 2021 and January 2022 sales invoices; 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 significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor’s Report continued
To the Members Of EnQuest PLC

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 page 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 page 30 and 31;
- the directors’ statement on fair, balanced and understandable set out on page 70 and 71;
- the board’s confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 42 to 53;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 74; and
- the section describing the work of the audit committee set out on page 70 to 73.

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 on 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 two years, covering the years ended 31 December 2020 and 31 December 2021.

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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

James Leigh FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23 March 2022

Group Income Statement
For the year ended 31 December 2021

	Notes	2021 Business performance $'000	2021 Remeasurements and exceptional items (note 4) $'000	2021 Reported in year $'000	2020 restated[(i)] Business performance $'000	2020 restated[(i)] Remeasurements and exceptional items (note 4) $'000	2020 restated[(i)] Reported in year $'000
Revenue and other operating income	5(a)	**1,320,265**	**(54,451)**	**1,265,814**	855,074	8,778	863,852
Cost of sales	5(b)	**(900,433)**	**(7,201)**	**(907,634)**	(785,455)	(13,626)	(799,081)
Gross profit/(loss)		**419,832**	**(61,652)**	**358,180**	69,619	(4,848)	64,771
Net impairment reversal/(charge) to oil and gas assets	4	**–**	**39,715**	**39,715**	–	(422,495)	(422,495)
General and administration expenses	5(c)	**(363)**	**–**	**(363)**	(6,105)	–	(6,105)
Other income	5(d)	**30,990**	**162,647**	**193,637**	18,100	138,249	156,349
Other expenses	5(e)	**(7,278)**	**(3,832)**	**(11,110)**	(101,633)	(956)	(102,589)
Profit/(loss) from operations before tax and finance income/(costs)		**443,181**	**136,878**	**580,059**	(20,019)	(290,050)	(310,069)
Finance costs	6	**(169,451)**	**(58,395)**	**(227,846)**	(179,818)	(77,259)	(257,077)
Finance income	6	**228**	**–**	**228**	1,171	–	1,171
Profit/(loss) before tax		**273,958**	**78,483**	**352,441**	(198,666)	(367,309)	(565,975)
Income tax	7	**(53,674)**	**78,221**	**24,547**	172,479	(76,449)	96,030
Profit/(loss) for the year attributable to owners of the parent		**220,284**	**156,704**	**376,988**	(26,187)	(443,758)	(469,945)
Total comprehensive profit/(loss) for the year, attributable to owners of the parent				**376,988**			(469,945)

(i) The comparative information has been restated as a result of change in accounting policy and prior period error. For more information, see note 2 Basis of preparation – Restatements

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

	Notes	2021 Business performance		2021 Reported in year	2020 Business performance		2020 Reported in year
Earnings per share	8	**$**		**$**	$		$
Basic		**0.127**		**0.217**	(0.016)		(0.290)
Diluted		**0.125**		**0.214**	(0.016)		(0.290)

The attached notes 1 to 29 form part of these Group financial statements.

Group Balance Sheet

At 31 December 2021

	Notes	2021 $'000	2020 restated[(i)] $'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,821,998**	2,633,917
Goodwill	11	**134,400**	134,400
Intangible assets	12	**47,667**	27,546
Deferred tax assets	7(c)	**702,970**	659,803
Other financial assets	19	**6**	7
		3,707,041	3,455,673
Current assets			
Inventories	13	**73,023**	59,784
Trade and other receivables	16	**296,068**	118,715
Current tax receivable		**2,368**	5,601
Cash and cash equivalents	14	**286,661**	222,830
Other financial assets	19	**472**	–
		658,592	406,930
TOTAL ASSETS		**4,365,633**	3,862,603
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	20	**392,196**	345,420
Share-based payment reserve		**6,791**	1,016
Retained earnings	20	**121,769**	(255,219)
TOTAL EQUITY		**520,756**	91,217
Non-current liabilities			
Borrowings	18	**191,109**	37,854
Bonds	18	**1,081,596**	1,045,041
Leases liabilities	24	**442,500**	548,407
Contingent consideration	22	**380,301**	448,384
Provisions	23	**754,266**	741,453
Deferred tax liabilities	7(c)	**3,418**	6,385
		2,853,190	2,827,524
Current liabilities			
Borrowings	18	**210,505**	414,430
Leases liabilities	24	**128,281**	99,439
Contingent consideration	22	**30,477**	73,877
Provisions	23	**140,676**	98,954
Trade and other payables	17	**420,544**	255,155
Other financial liabilities	19	**55,247**	2,007
Current tax payable		**5,957**	–
		991,687	943,862
TOTAL LIABILITIES		**3,844,877**	3,771,386
TOTAL EQUITY AND LIABILITIES		**4,365,633**	3,862,603

(i) The comparative information has been restated as a result of change in accounting policy and prior period error. For more information, see note 2 Basis of preparation – Restatements

The attached notes 1 to 29 form part of these Group financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 23 March 2022 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital and share premium $'000	Merger Reserve[i] $'000	Share-based payments reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2020	345,420	662,855	(1,085)	(448,129)	559,061
Profit/(loss) for the year (restated)[ii]	–	–	–	(469,945)	(469,945)
Total comprehensive loss for the year (restated)[ii]	–	–	–	(469,945)	(469,945)
Share-based payment (see note 21)	–	–	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 (restated)[ii]	**345,420**	**–**	**1,016**	**(255,219)**	**91,217**
Profit/(loss) for the year	**–**	**–**	**–**	**376,988**	**376,988**
Total comprehensive profit for the year	**–**	**–**	**–**	**376,988**	**376,988**
Issue of share capital, net of expenses	**46,200**	**–**	**–**	**–**	**46,200**
Share-based payment (see note 21)	**–**	**–**	**6,351**	**–**	**6,351**
Shares purchased on behalf of Employee Benefit Trust	**576**	**–**	**(576)**	**–**	**–**
Balance at 31 December 2021	**392,196**	**–**	**6,791**	**121,769**	**520,756**

(i) In 2020, the merger reserve was released to retained earnings as the assets which gave rise to its original recognition were fully written down
(ii) The comparative information has been restated as a result of change in accounting policy and prior period error. For more information, see note 2 Basis of preparation – Restatements

The attached notes 1 to 29 form part of these Group financial statements.

Group Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 $'000	2020 restated[i] $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	29	**756,928**	567,165
Cash received from insurance		**674**	–
Cash received/(paid) on sale/(purchase) of financial instruments		**(277)**	6,226
Decommissioning spend		**(65,791)**	(41,605)
Income taxes paid		**(17,396)**	(10,366)
Net cash flows from/(used in) operating activities		**674,138**	521,420
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(43,712)**	(131,376)
Purchase of intangible oil and gas assets		**(8,127)**	–
Purchase of other intangible assets	12	**(10,052)**	–
Net cash received on termination of Tanjong Baram risk service contract		**–**	51,054
Repayment of Magnus contingent consideration – Profit share	22	**(968)**	(41,071)
Acquisitions		**(258,627)**	–
Interest received		**256**	796
Net cash flows (used in)/from investing activities		**(321,230)**	(120,597)
FINANCING ACTIVITIES			
Net proceeds of share issue		**47,782**	–
Proceeds of loans and borrowings		**125,000**	–
Repayment of loans and borrowings		**(184,276)**	(210,671)
Repayment of Magnus contingent consideration – Vendor loan	22	**(73,728)**	(20,702)
Shares purchased by Employee Benefit Trust		**(576)**	(1,153)
Repayment of obligations under financing leases	24	**(136,651)**	(123,001)
Interest paid		**(63,025)**	(42,961)
Other finance costs paid		**–**	(2,526)
Net cash flows from/(used in) financing activities		**(285,474)**	(401,014)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**67,434**	(191)
Net foreign exchange on cash and cash equivalents		**(3,603)**	2,566
Cash and cash equivalents at 1 January		**222,830**	220,455
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**286,661**	222,830
Reconciliation of cash and cash equivalents			
Total cash at bank and in hand	14	**276,970**	221,155
Restricted cash	14	**9,691**	1,675
Cash and cash equivalents per balance sheet		**286,661**	222,830

(i) The comparative information has been restated as a result of change in accounting policy and prior period error. For more information, see note 2 Basis of preparation – Restatements

The attached notes 1 to 29 form part of these Group financial statements.

Notes to the Group Financial Statements
For the year ended 31 December 2021

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 174.

The principal activities of the Company and its subsidiaries (together the 'Group') are to responsibly optimise production, leverage existing infrastructure, deliver a strong decommissioning performance and explore new energy and further decarbonisation opportunities.

The Group's financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 23 March 2022.

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

2. Basis of preparation
The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards and International Financial Reporting Standards as issued by the IASB and in conformity with the requirements of the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2021.

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 its Business performance results and its 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 separately in order to enable shareholders to understand better and evaluate the Group's reported financial performance. For further information see note 4.

Restatements
Presentation of rental income
EnQuest receives rental income for sub-leasing space in its corporate offices. The Group previously presented the rental income associated with office sub-leases within revenue and other operating income in the income statement. The Group has determined that the revenue derived from this income is not related to the principal activities of the Group and should be presented within other income in the income statement. Comparative information has been restated, resulting in a $1.8 million reduction in revenue and other operating income and a $1.8 million increase in other income. There is no impact on comparative information for profit/(loss) from operations before tax and finance income/(costs) or earnings per share.

Presentation of Group Statement of Cash Flows
Following a review of the Group's primary statements, the Group has updated the presentation of the Group Statement of Cash Flows to reconcile to cash and cash equivalents per the balance sheet. In previous years, the Group Statement of Cash Flows was reconciled to cash and cash equivalents excluding restricted cash. Following this change, the presentation of the Group Statement of Cash Flows in 2020 has been restated, which has resulted in a $0.7 million reduction in cash flows from operating activities.

Deferred tax asset restatement
Subsequent to the publication of the Group's 2020 consolidated financial statements and as part of the preparation of its interim report, the Group determined there was an inconsistency in the calculation of the deferred tax asset recognised on the balance sheet associated with Magnus contingent consideration and the relevant estimated future cash flows used in the calculation of future taxable profits to support the recognition of this deferred tax asset and the deferred tax asset associated with other available tax losses. This inconsistency resulted in excess deferred tax being derecognised within Remeasurements and exceptional items of $155.9 million with respect to the year ended 31 December 2020. There are no changes to the underlying amounts recognised in relation to contingent consideration or to amounts recognised in respect of deferred tax in earlier periods. The tables below reflect the corrections to the comparative periods which are disclosed in these Group financial statements.

Group Income Statement[i]

		2020 (as previously reported)		Restatement adjustment	2020 restated		
	Business performance $'000	Remeasurements and exceptional items (note 4) $'000	Reported in period $'000	$'000	**Business performance $'000**	**Remeasurements and exceptional items (note 4) $'000**	**Reported in year $'000**
Profit/(loss) before tax	(198,666)	(367,309)	(565,975)		**(198,666)**	**(367,309)**	**(565,975)**
Income tax	172,479	(232,306)	(59,827)	155,857	**172,479**	**(76,449)**	**96,030**
Profit/(loss) for the year attributable to owners of the parent	(26,187)	(599,615)	(625,802)	155,857	**(26,187)**	**(443,758)**	**(469,945)**
Total comprehensive profit/(loss) for the period, attributable to owners of the parent			(625,802)	155,857			**(469,945)**
Earnings per share	$		$		**$**		**$**
Basic	(0.016)		(0.378)	0.088	**(0.016)**		**(0.290)**
Diluted	(0.016)		(0.378)	0.088	**(0.016)**		**(0.290)**

(i) Only the impact of the material deferred tax asset restatement presented

Group Balance Sheet[i]

	2020 (as previously reported) $'000	Restatement adjustment $'000	**2020 restated $'000**
ASSETS			
Non-current assets			
Deferred tax assets	503,946	155,857	**659,803**
TOTAL ASSETS	3,706,746	155,857	**3,862,603**
EQUITY AND LIABILITIES			
Equity			
Retained earnings	(411,076)	155,857	**(255,219)**
TOTAL EQUITY	(64,640)	155,857	**91,217**
TOTAL EQUITY AND LIABILITIES	3,706,746	155,857	**3,862,603**

(i) Only the impact of the material deferred tax asset restatement presented

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.

The health, safety and wellbeing of the Group's employees is its top priority and it continues to monitor actively the impact on operations from COVID-19. 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. The Group is cognisant of the ongoing risks presented by the evolving situation. 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.

During 2021, the Group signed a new senior secured borrowing base debt facility (the 'RBL') of $600.0 million and an additional amount of $150.0 million for letters of credit for up to seven years, subject to refinancing the Group's existing high yield bonds.. The RBL is initially repaid based on an amortisation schedule and via a cash sweep mechanism, whereby any unrestricted cash in excess of $75.0 million is swept to repay outstanding amounts at calendar quarter ends. Application of the amortisation schedule ensures the RBL is fully repaid by June 2023.

Upon refinancing of the Group's High Yield Bond, the maturity of the RBL is extended to seven years from its signing date (11 June 2021), or the point at which the remaining economic reserves for all borrowing base assets are projected to fall below 25% of the initial economic reserves forecast, if earlier.

2. Basis of preparation continued
At 31 December 2021, $415.0 million was drawn on the RBL, with early voluntary repayments of $85.0 million made in the first quarter of 2022.

The Group continues to explore options to refinance its Retail and High Yield Bonds ahead of maturity in October 2023. For the purposes of assessing going concern it is assumed that the refinancing of the bonds occurs outside of the going concern period. However, in the scenario that the Group concluded a successful refinancing of the bonds within the next 12 months, then the going concern basis at the date of release of this annual report would also be considered appropriate.

The Group's latest approved business plan underpins management's base case ('Base Case') and is in line with the Group's production guidance and uses oil price assumptions of $75.0/bbl for 2022 and $70.0/bbl for 2023, adjusted for hedging activity undertaken.

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 $67.5/bbl for 2022 and $63.0/bbl for 2023;
- Production risking of c.5.0% for 2022 and 2023; and
- 2.5% increase in operating costs.

The Base Case and Downside Case indicate that the Group is able to operate as a going concern and remain covenant compliant 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 liquidity break-even price in the going concern period being less than $60.0/bbl in order to maintain a minimum unrestricted cash balance of above $50.0 million across all periods (as required by the RBL).

Should circumstances arise that differ from the Group's projections, the Directors believe that a number of mitigating actions, including 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.

After making appropriate enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, 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:
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- COVID-19-Related Rent Concessions beyond 30 June 2021 (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 and Disclosure of Accounting Policies*
Amendments to IAS 8	*Disclosure of Accounting Policies*
Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
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 recognises its share of assets, liabilities, income and expenses of the joint operation in the consolidated financial statements on a line-by-line basis. During 2021, 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 Group 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.

Emissions liabilities
The Group operates in an energy intensive industry and is therefore required to partake in emission trading schemes ('ETS') (2021: UK ETS, 2020: EU ETS). The Group recognises an emission liability in line with the production of emissions that give rise to the obligation. To the extent the liability is covered by allowances held, the liability is recognised at the cost of these allowances held and if insufficient allowances are held, the remaining uncovered portion is measured at the spot market price of allowances at the balance sheet date. The expense is presented within 'production costs' under 'cost of sales' and the accrual is presented in 'trade and other payables'. Any allowance purchased to settle the Group's liability is recognised on the balance sheet as an intangible asset. Both the emission allowances and the emission liability are derecognised upon settling the liability with the respective regulator.

Use of judgements, estimates and assumptions
The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The accounting judgements and estimates that have a significant impact on the results of the Group are set out below and should be read in conjunction with the information provided in the Notes to the financial statements. Judgements and estimates, not all of which are significant, made in assessing the impact of climate change and the transition to a lower carbon economy on the consolidated financial statements are also set out below. Where an estimate has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, this is specifically noted.

2. Basis of preparation continued

Climate change and energy transition

As covered in our principal risks on oil and gas prices on page 47, the Group recognises that the energy transition is likely to impact the demand, and hence the future prices, of commodities such as oil and natural gas. This in turn may affect the recoverable amount of property, plant and equipment, and goodwill in the oil and gas industry. The Group acknowledges that there are a range of possible energy transition scenarios that may indicate different outcomes for oil prices. There are inherent limitations with scenario analysis and it is difficult to predict which, if any, of the scenarios might eventuate.

The Group has assessed the potential impacts of climate change and the transition to a lower carbon economy in preparing the consolidated financial statements, including the Group's current assumptions relating to demand for oil and natural gas and their impact on the Group's long-term price assumptions. See Recoverability of asset carrying values: Oil prices.

While the pace of transition to a lower carbon economy is uncertain, oil and natural gas demand is expected to remain a key element of the energy mix for many years based on stated policies, commitments and announced pledges to reduce emissions. Therefore, given the useful lives of the Group's current portfolio of oil and gas assets, a material adverse change is not expected to the carrying values of EnQuest's assets and liabilities as a result of climate change and the transition to a lower carbon economy.

Management will continue to review price assumptions as the energy transition progresses and this may result in impairment charges or reversals in the future.

Critical accounting judgements and key sources of estimation uncertainty

The Group has considered its critical accounting judgements and key sources of estimation uncertainty, and these are set out below.

Recoverability of asset carrying values

Judgements: The Group assesses each asset or cash-generating unit ('CGU') (excluding goodwill, which is assessed annually regardless of indicators) in each reporting period to determine whether any indication of impairment exists. Assessment of indicators of impairment or impairment reversal and the determination of the appropriate grouping of assets into a CGU or the appropriate grouping of CGUs for impairment purposes require significant management judgement. For example, individual oil and gas properties may form separate CGUs whilst certain oil and gas properties with shared infrastructure may be grouped together to form a single CGU. Alternative groupings of assets or CGUs may result in a different outcome from impairment testing. See note 11 for details on how these groupings have been determined in relation to the impairment testing of goodwill.

Estimates: Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to dispose ('FVLCD') and value in use ('VIU'). The assessments require the use of estimates and assumptions such as the effects of inflation and deflation on operating expenses, discount rates, capital expenditure, production profiles, reserves and resources, and future commodity prices, including the outlook for global or regional market supply-and-demand conditions for crude oil and natural gas.

As described above, the recoverable amount of an asset is the higher of its VIU and its FVLCD. When the recoverable amount is measured by reference to FVLCD, in the absence of quoted market prices or binding sale agreement, estimates are made regarding the present value of future post-tax cash flows. These estimates are made from the perspective of a market participant and include prices, future production volumes, operating costs, capital expenditure, decommissioning costs, tax attributes, risking factors applied to cash flows and discount rates. Reserves and resources are included in the assessment of FVLCD to the extent that it is considered probable that a market participant would attribute value to them.

Details of impairment charges and reversals recognised in the income statement and details on the carrying amounts of assets are shown in note 10, note 11 and note 12.

The estimates for assumptions made in impairment tests in 2021 relating to discount rates and oil prices are discussed below. Changes in the economic environment or other facts and circumstances may necessitate revisions to these assumptions and could result in a material change to the carrying values of the Group's assets within the next financial year.

Discount rates

For discounted cash flow calculations, future cash flows are adjusted for risks specific to the CGU. Fair value less costs of disposal discounted cash flow calculations use the post-tax discount rate. The discount rate is derived using the weighted average cost of capital methodology. The discount rates applied in impairment tests are reassessed each year and, in 2021, the post-tax discount rate was 10% (2020: 10%).

Oil prices

The price assumptions used for FVLCD impairment testing were based on latest internal forecasts as at 31 December 2021, which assume short-term market prices will revert to the Group's assessment of long-term price. These price forecasts reflect EnQuest's long-term views of global supply and demand, including the potential financial impacts on the Group of climate change and the transition to a low carbon economy as outlined in the Basis of Preparation, and are benchmarked with external sources of information such as analyst forecasts. The Group's price forecasts are reviewed and approved by management and challenged by the Audit Committee.

EnQuest revised its oil price assumptions for FVLCD impairment testing compared to those used in 2020. The assumptions up to 2024 were increased to reflect an improved demand outlook as at the end of 2021. Oil prices rose 51% in 2021 from 2020 due to a strong rebound in oil demand as the impact of COVID-19 eased and there were measured increases in OPEC+ supply combined with continued capital discipline across the industry impacting supply. A summary of the Group's revised price assumptions is provided below. These assumptions, which represent management's best estimate of future prices, sit within the range of external forecasts and are considered by EnQuest to be broadly in line with a range of transition paths consistent with the Paris climate goals. However, they do not correspond to any specific Paris-consistent scenario. An inflation rate of 2% (2020: 2%) is applied from 2025 onwards to determine the price assumptions in nominal terms. Discounts or premiums are applied to price assumptions based on the characteristics of the oil produced and of the terms of the relevant sales contracts.

	2022	2023	2024	2025>
Brent oil ($/bbl)	75.0	70.0	70.0	60.0

The increase in oil prices in the first quarter of 2022 relating to the Russia-Ukraine conflict is a result of conditions that arose after the balance sheet date. As such, the Group's future oil price assumptions used in impairment tests to assess the recoverable amount of assets at the balance sheet date have not been adjusted.

A net impairment reversal was recognised in 2021. See note 10 for further information.

The price assumptions used in 2020 were $47.0/bbl (2021), $55.0/bbl (2022), $60.0/bbl (2023) and $60.0/bbl real thereafter, inflated at 2.0% per annum from 2024.

Oil and natural gas reserves

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. 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. 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. Economic assumptions used to estimate reserves change from period to period as additional technical and operational data is generated. This process may require complex and difficult geological judgements to interpret the data.

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 intends to develop and it is probable that a market participant would attribute value to them. Third-party audits of EnQuest's reserves and resources are conducted annually.

Sensitivity analyses

Management tested the impact of a change in cash flows in FVLCD impairment testing arising from a 10% reduction in price assumptions.

Price reductions of this magnitude in isolation could indicatively lead to a reduction in the carrying amount of EnQuest's oil and gas properties by approximately $283.5 million, which is approximately 10% of the net book value of property, plant and equipment as at 31 December 2021.

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.

Management also tested the impact of a one percentage point change in the discount rate used for FVLCD impairment testing of oil and gas properties. If the discount rate was one percentage point higher across all tests performed, the net impairment reversal recognised in 2021 would have been approximately $35.1 million lower. If the discount rate was one percentage point lower, the net impairment reversal recognised would have been approximately $38.3 million higher.

Goodwill

Irrespective of whether there is any indication of impairment, EnQuest is required to test annually for impairment of goodwill acquired in business combinations. The Group carries goodwill of approximately $134.4 million on its balance sheet (2020: $134.4 million), principally relating to the Magnus oil field transactions. Sensitivities and additional information relating to impairment testing of goodwill are provided in note 11.

Deferred tax

The Group assesses the recoverability of its deferred tax assets at each period end. Sensitivities and additional information relating to deferred tax assets/liabilities are provided in note 7(d).

2. Basis of preparation continued

75% Magnus acquisition contingent consideration

Sensitivities and additional information relating to the 75% Magnus acquisition contingent consideration are provided in note 22.

Provisions

Estimates: Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's oil and gas production facilities and pipelines. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost 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 and experience at other production sites. 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.

The timing and amount of future expenditures relating to decommissioning and environmental liabilities are reviewed annually. The interest rate used in discounting the cash flows is reviewed half-yearly. The nominal interest rate used to determine the balance sheet obligations at the end of 2021 was 2% (2020: 2%). The weighted average period over which decommissioning costs are generally expected to be incurred is estimated to be approximately ten years. Costs at future prices are determined by applying an inflation rate of 2% (2020: 2%) to decommissioning costs.

Further information about the Group's provisions is provided in note 23. Changes in assumptions in relation to the Group's provisions could result in a material change in their carrying amounts within the next financial year. A 0.5 percentage point decrease in the nominal discount rate applied could increase the Group's provision balances by approximately $40.9 million (2020: $38.4 million). The pre-tax impact on the Group income statement would be a charge of approximately $5.9 million.

Intangible oil and gas assets

Judgements: The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely from either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

3. Segment information

The Group's organisational structure reflects the various activities in which EnQuest is engaged. Management has considered the requirements of IFRS 8 Operating Segments in regard to the determination of operating segments and concluded that at 31 December 2021, the Group had two significant operating segments: the North Sea and Malaysia. Operations are managed by location and all information is presented per geographical segment. The Group's segmental reporting structure remained in place throughout 2021. The North Sea's activities include Upstream operations, Decommissioning and Infrastructure & New Energy. Malaysia's activities include Upstream operations. The Group's reportable segments may change in the future depending on the way that resources may be allocated and performance assessed by the Chief Operating Decision Maker, who for EnQuest is the Chief Executive. 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 2021 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue:						
Revenue from contracts with customers	1,283,939	99,959	–	1,383,898	–	1,383,898
Other operating income	3,811	–	235	4,046	(122,130)	(118,084)
Total revenue and other operating income	1,287,750	99,959	235	1,387,944	(122,130)	1,265,814
Income/(expenses) line items:						
Depreciation and depletion	(299,324)	(13,612)	(134)	(313,070)	–	(313,070)
Net impairment (charge)/reversal to oil and gas assets	39,715	–	–	39,715	–	39,715
Segment profit/(loss)(ii)	653,301	35,625	(291)	688,635	(108,576)	580,059
Other disclosures:						
Capital expenditure(iii)	459,302	17,419	314	477,035	–	477,035

Restated Year ended 31 December 2020[iv] $'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 operating income	5,428	–	280	5,708	2,719	8,427
Total revenue and other operating income	797,936	62,917	280	862,929	2,719	863,852
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

(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 exploration and appraisal assets
(iv) Comparative information for 2020 has been restated for the changes to the presentation of rental income effective 1 January 2021. For more information, see note 2 Basis of preparation – Restatements

Reconciliation of profit/(loss):

	Year ended 31 December 2021 $'000	Year ended 31 December 2020 $'000
Segment profit/(loss)	**688,635**	(311,427)
Finance costs	**(227,846)**	(257,077)
Finance income	**228**	1,171
Gain/(loss) on oil and foreign exchange derivatives[i]	**(108,576)**	1,358
Profit/(loss) before tax	**352,441**	(565,975)

(i) Includes $54.6 million realised losses on derivatives and $54.0 million unrealised losses on derivatives

Revenue from two 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 $241.7 million and $150.6 million per each single customer (2020: four customers; $188.9 million, $143.4 million, $113.1 million and $84.9 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 the 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 remeasurements 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.

4. Remeasurements and exceptional items continued

Year ended 31 December 2021 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	(54,451)	–	–	(54,451)
Cost of sales	472	–	(7,673)	(7,201)
Net impairment (charge)/reversal on oil and gas assets	–	39,715	–	39,715
Other income	140,079	–	22,568	162,647
Other expense	–	–	(3,832)	(3,832)
Finance costs	–	–	(58,395)	(58,395)
	86,100	39,715	(47,332)	78,483
Tax on items above	(36,518)	(14,722)	24,915	(26,325)
Recognition of undiscounted deferred tax asset(iv)	–	104,546	–	104,546
	49,582	129,539	(22,417)	156,704

Restated 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 expenses	–	–	(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
Derecognition of undiscounted deferred tax asset (restated)(iv)	–	(215,204)	–	(215,204)
	87,408	(474,432)	(56,734)	(443,758)

(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 $(54.0) million. Other income relates to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure of $140.1 million (note 22) (2020: $138.2 million)
(ii) Impairments and write offs include a net impairment reversal of tangible oil and gas assets and right-of-use assets totalling $39.7 million (note 10) (2020: impairment of $422.5 million)
(iii) Other items are made up of the following: Cost of sales includes $7.7 million mainly related to a provision for a dispute with a third party contractor. In 2020 cost of sales included $11.7 million for the provision on the PM8/Seligi riser repair and redundancy costs in relation to the Group's transformation programme. Other income in 2021 of $22.6 million (2020: nil) includes the finalisation of previous asset acquisitions, $12.0 million, and the recognition of insurance income, $9.0 million, related to the PM8/Seligi riser incident. Other expense $3.8 million relates to expenses incurred on the repayment of the BP vendor loan and Finance costs relates to Magnus contingent consideration of $58.3 million (note 22) (2020: $77.3 million). These are largely non-cash items.
(iv) Non-cash deferred tax recognition (2020 restated see note 2 Basis of preparation – Restatements) following the Group's acquisition of Golden Eagle and the Group's higher 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 fixed discount rate to an appropriate benchmark, 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 from vessels, 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 2021 $'000	Year ended 31 December 2020 restated $'000
Revenue from contracts with customers:		
Revenue from crude oil sales	**1,139,171**	779,865
Revenue from gas and condensate sales(i)	**244,073**	60,486
Tariff revenue	**654**	15,074
Total revenue from contracts with customers	**1,383,898**	855,425
Rental income from vessels(ii)	**702**	3,910
Realised (losses)/gains on oil derivative contracts (see note 19)	**(67,679)**	(6,059)
Other	**3,344**	1,798
Business performance revenue and other operating income	**1,320,265**	855,074
Unrealised (losses)/gains on oil derivative contracts(iii) (see note 19)	**(54,451)**	8,778
Total revenue and other operating income	**1,265,814**	863,852

(i) Includes onward sale of third-party gas purchases not required for injection activities at Magnus
(ii) Comparative information for 2020 has been restated for the changes to the presentation of rental income effective 1 January 2021. For more information, see note 2 Basis of preparation – Restatements
(iii) 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 2021 $'000		Year ended 31 December 2020 $'000	
	North Sea	**Malaysia**	North Sea	Malaysia
Revenue from contracts with customers:				
Revenue from crude oil sales	**1,040,577**	**98,594**	719,504	60,361
Revenue from gas and condensate sales(i)	**242,708**	**1,365**	57,930	2,556
Tariff revenue	**654**	**–**	15,074	–
Total revenue from contracts with customers	**1,283,939**	**99,959**	792,508	62,917

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

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 2021 $'000	Year ended 31 December 2020 $'000
Production costs	292,252	265,529
Tariff and transportation expenses	39,414	63,685
Realised loss/(gain) on derivative contracts related to operating costs (see note 19)	(10,693)	(572)
Change in lifting position	62,868	(31,508)
Crude oil inventory movement	(561)	(3,293)
Depletion of oil and gas assets(i)	305,578	438,247
Other cost of operations(ii)	211,575	53,367
Business performance cost of sales	900,433	785,455
Unrealised (gains)/losses on derivative contracts related to operating costs(iii) (see note 19)	(472)	1,932
Movement in other provisions	7,673	11,694
Total cost of sales	907,634	799,081

(i) Includes $45.7 million (2020: $68.5 million) Kraken FPSO right-of-use asset depreciation charge and $14.3 million (2020: $10.5 million) of other right-of-use assets depreciation charge
(ii) Includes $199.6 million of purchases and associated costs of third-party gas not required for injection activities at Magnus which is sold on (2020: $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 2021 $'000	Year ended 31 December 2020 $'000
Staff costs (see note 5(f))	80,098	85,813
Depreciation(i)	7,492	7,616
Other general and administration costs	21,322	21,831
Recharge of costs to operations and joint venture partners	(108,549)	(109,155)
Total general and administration expenses	363	6,105

(i) Includes $4.0 million (2020: $3.7 million) right-of-use assets depreciation charge on buildings

(d) Other income

	Year ended 31 December 2021 $'000	Year ended 31 December restated(i) 2020 $'000
Net foreign exchange gains	391	–
Gain on termination of Tanjong Baram risk service contract	–	10,209
Change in decommissioning provisions	19,327	–
Rental income from office sublease(i)	1,702	1,796
Other	9,570	6,095
Business performance other income	30,990	18,100
Fair value changes in contingent consideration (see note 22)	140,079	138,249
Other non-business performance	22,568	–
Total other income	193,637	156,349

(i) Comparative information for 2020 has been restated for the changes to the presentation of rental income effective 1 January 2021. For more information, see note 2 Basis of preparation – Restatements

(e) Other expenses

	Year ended 31 December 2021 $'000	Year ended 31 December 2020 $'000
Net foreign exchange losses	–	4,625
Change in decommissioning provisions	–	83,199
Change in Thistle decommissioning provisions (note 23)	**6,184**	11,998
Other	**1,094**	1,811
Business performance other expenses	**7,278**	101,633
Loss on derecognition of assets related to the Seligi riser detachment	–	956
Other non-Business performance	**3,832**	–
Total other expenses	**11,110**	102,589

(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 2021 $'000	Year ended 31 December 2020 $'000
Wages and salaries	**71,391**	85,913
Social security costs	**7,120**	9,118
Defined contribution pension costs	**5,464**	6,871
Expense of share-based payments (see note 21)	**6,351**	3,401
Other staff costs	**12,475**	12,781
Total employee costs	**102,801**	118,084
Contractor costs	**33,871**	39,371
Total staff costs	**136,672**	157,455
General and administration staff costs (see note 5(c))	**80,098**	85,813
Non-general and administration costs	**56,574**	71,642
Total staff costs	**136,672**	157,455

The average number of persons, excluding contractors, employed by the Group during the year was 734, with 339 in the general and administration staff costs and 395 directly attributable to assets (2020: 885 of which 383 in general and administration and 502 directly attributable to assets). Compensation of key management personnel is disclosed in note 26 and in the remuneration report on page 76.

5. Revenue and expenses continued

(g) Auditor's remuneration

The following amounts for the year ended 31 December 2021 and for the comparative year ended 31 December 2020 were payable by the Group to Deloitte:

	Year ended 31 December 2021 $'000	Year ended 31 December 2020 $'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**847**	649
The audit of the Company's subsidiaries	**145**	178
Total audit	**992**	827
Audit-related assurance services(i)	**1,419**	180
Total audit and audit related assurance services	**2,411**	1,007
Tax services	**–**	10
Total auditor's remuneration	**2,411**	1,017

(i) Audit-related assurance services include the review of the Group's interim results and audit and assurance work in respect of the Group's Golden Eagle acquisition

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 2021 $'000	Year ended 31 December 2020 $'000
Finance costs:		
Loan interest payable	**20,206**	32,791
Bond interest payable	**69,085**	73,476
Unwinding of discount on decommissioning provisions (see note 23)	**15,856**	14,512
Unwinding of discount on other provisions (see note 23)	**1,061**	796
Finance charges payable under leases	**45,359**	50,851
Amortisation of finance fees on loans and bonds	**13,623**	5,417
Other financial expenses	**4,261**	1,975
Business performance finance expenses	**169,451**	179,818
Finance costs on Magnus-related contingent consideration (see note 22)	**58,395**	77,259
Total finance costs	**227,846**	257,077
Finance income:		
Bank interest receivable	**228**	896
Unwinding of discount on financial asset (see note 19(f))	**–**	275
Total finance income	**228**	1,171

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 2021 $'000	Year ended 31 December 2020 restated $'000
Current UK income tax		
Current income tax charge	**3,559**	–
Adjustments in respect of current income tax of previous years	**199**	140
Current overseas income tax		
Current income tax charge	**18,050**	2,424
Adjustments in respect of current income tax of previous years	**(221)**	(295)
Total current income tax	**21,587**	2,269
Deferred UK income tax		
Relating to origination and reversal of temporary differences	**(43,325)**	(97,673)
Adjustments in respect of changes in tax rates	**–**	1
Adjustments in respect of deferred income tax of previous years	**157**	2,660
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	**(5,320)**	(5,135)
Adjustments in respect of deferred income tax of previous years	**2,354**	1,848
Total deferred income tax	**(46,134)**	(98,299)
Income tax (credit)/expense reported in profit or loss	**(24,547)**	(96,030)

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 2021 $'000	Year ended 31 December 2020 restated(i) $'000
Profit/(loss) before tax	**352,441**	(565,975)
UK statutory tax rate applying to North Sea oil and gas activities of 40% (2020: 40%)	**140,976**	(226,390)
Supplementary corporation tax non-deductible expenditure	**4,331**	17,761
Petroleum revenue tax (net of income tax benefit)	**2,548**	(2,548)
Non-deductible expenditure/income	**(1,442)**	(3,449)
North Sea tax reliefs	**(113,593)**	(106,685)
Tax in respect of non-ring-fence trade	**23,378**	3,222
Deferred tax asset (recognition)/impairment in respect of non-ring-fence trade	**21,241**	3,515
Deferred tax asset (recognition)/impairment in respect of ring-fence trade	**(104,546)**	215,204
Adjustments in respect of prior years	**2,489**	4,352
Overseas tax rate differences	**(594)**	(1,250)
Share-based payments	**1,526**	1,097
Other differences	**(861)**	(859)
At the effective income tax rate of 7% (2020: 17%)	**(24,547)**	(96,030)

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		(Credit)/charge for the year recognised in profit or loss	
	2021 $'000	2020 restated(i) $'000	2021 $'000	2020 restated(i) $'000
Deferred tax liability				
Accelerated capital allowances	**768,630**	821,253	**(52,623)**	(236,551)
	768,630	821,253		
Deferred tax asset				
Losses	**(1,017,107)**	(981,445)	**(35,653)**	121,089
Decommissioning liability	**(286,045)**	(310,697)	**24,652**	(26,640)
Other temporary differences	**(165,030)**	(182,529)	**17,490**	43,803
	(1,468,182)	(1,474,671)	**(46,133)**	(98,299)
Net deferred tax (assets)	**(699,552)**	(653,418)		
Reflected in the balance sheet as follows:				
Deferred tax assets	**(702,970)**	(659,803)		
Deferred tax liabilities	**3,418**	6,385		
Net deferred tax (assets)	**(699,552)**	(653,418)		

Reconciliation of net deferred tax assets/(liabilities)

	2021 $'000	2020 restated(i) $'000
At 1 January	**653,418**	555,119
Tax income/(expense) during the period recognised in profit or loss	**46,134**	98,299
At 31 December	**699,552**	653,418

(i) Comparative information for 2020 has been restated for the changes to the presentation of rental income effective 1 January 2021. For more information, see note 2 Basis of preparation – Restatements

(d) Tax losses

The Group's deferred tax assets at 31 December 2021 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. A $127.6 million tax credit has been recognised as an exceptional item, reflecting the reversal of the previous deferred tax asset derecognition. 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 a reasonable possible change for the purposes of sensitivity analysis (see note 2). A 10% reduction in oil price would result in a deferred tax asset derecognition of $318.6 million and a 10% increase in oil price would result in an increase in deferred tax asset recognition of $107.9 million.

The Group has unused UK mainstream corporation tax losses of $431.7 million (2020: $320.7 million), and ring-fence tax losses of $957.8 million associated with the Bentley acquisition, for which no deferred tax asset has been recognised at the balance sheet date as recovery of these losses is to be established. 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 and the remaining benefit of $12.9 million (2020: $15.1 million) remaining unrecognised.

The Group has unused overseas tax losses in Canada of approximately CAD$13.5 million (2020: 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 2021, and which arose following the change in control of the Stratic Group in 2010.

The Group has unused Malaysian income tax losses of $15.7 million (2020: $14.3 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	
	2021 $'000	2020 restated[ii] $'000	**2021 million**	2020 million	**2021 $**	2020 restated[ii] $
Basic	**376,988**	(469,945)	**1,736.4**	1,655.0	**0.217**	(0.290)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**24.7**	15.1	**–**	–
Diluted[i]	**376,988**	(469,945)	**1,761.1**	1,670.1	**0.214**	(0.290)
Basic (excluding remeasurements and exceptional items)	**220,284**	(26,187)	**1,736.4**	1,655.0	**0.127**	(0.016)
Diluted (excluding remeasurements and exceptional items)[i]	**220,284**	(26,187)	**1,761.1**	1,670.1	**0.125**	(0.016)

(i) Potential Ordinary shares are not treated as dilutive when they would decrease a loss per share
(ii) 2020 comparative restated, see note 2 Basis of preparation – Restatements

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2021 (2020: none). At 31 December 2021, there are no proposed dividends (2020: 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 Group 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 is 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 ('CGUs'), 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 life of a field depends on the interaction of a number of variables such as the recoverable quantity of hydrocarbons, the production profile of the hydrocarbons, the capex necessary to recover the hydrocarbons, production costs and the selling price of the hydrocarbons produced. Estimated production volumes and cash flows up to the date of cessation of production on a field-by-field basis, including operating and capital expenditure, are derived from the Group's business plan. Oil price assumptions and discount rate assumptions used were as disclosed in note 2. 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 2020	8,547,769	62,453	857,089	9,467,311
Additions	78,926	1,910	2,812	83,648
Change in decommissioning provision	10,200	–	–	10,200
Disposals and termination of Tanjong Baram risk service contract	(84,724)	(143)	(1,412)	(86,279)
At 1 January 2021	**8,552,171**	**64,220**	**858,489**	**9,474,880**
Acquisition	**386,210**	**–**	**–**	**386,210**
Additions	**61,704**	**1,165**	**17,815**	**80,684**
Change in decommissioning provision	**(2,732)**	**–**	**–**	**(2,732)**
Disposal	**–**	**–**	**(8,411)**	**(8,411)**
At 31 December 2021	**8,997,353**	**65,385**	**867,893**	**9,930,631**
Accumulated depreciation, depletion and impairment:				
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	(42,958)	(113)	(706)	(43,777)
Impairment charge for the year	314,335	–	108,160	422,495
At 1 January 2021	**6,428,559**	**50,357**	**362,047**	**6,840,963**
Charge for the year	**245,645**	**3,472**	**63,953**	**313,070**
Net impairment reversal for the year	**(24,046)**	**–**	**(15,669)**	**(39,715)**
Disposal	**–**	**–**	**(5,831)**	**(5,831)**
Other	**146**	**–**	**–**	**146**
At 31 December 2021	**6,650,304**	**53,829**	**404,500**	**7,108,633**
Net carrying amount:				
At 31 December 2021	**2,347,049**	**11,556**	**463,393**	**2,821,998**
At 31 December 2020	2,123,612	13,863	496,442	2,633,917
At 1 January 2020	2,749,845	15,885	685,199	3,450,929

The amount of borrowing costs capitalised during the year ended 31 December 2021 was nil (2020: nil).

Acquisitions

The Group acquired a 26.69% non-operated interest in the producing Golden Eagle area from Suncor Energy UK on 22 October 2021. The Group applied the optional concentration test for this transaction in accordance with IFRS 3. Accordingly, it has been concluded that as substantially all of the value arising from the transaction relates to the producing oil and gas asset, the acquired assets do not represent a business and therefore the transaction has been accounted for as an asset acquisition at cost. Consideration included cash of $249.7 million and a contingent payment based on the average oil price between July 2021 and June 2023. The Net Present Value of the contingent payment has been valued at $44.7 million and has been included within contingent consideration (see note 22). Other directly attributable costs of $10.4 million were also included in the cost of the acquisition. The total oil and gas asset recognised in relation to the acquisition is $386.2 million. A decommissioning liability of $119.3 million was also recognised as part of the acquisition (see note 23).

Impairments

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

	Impairment (charge)/reversal		Recoverable amount[i]	
	Year ended 31 December 2021 $'000	Year ended 31 December 2020 $'000	**31 December 2021 $'000**	31 December 2020 $'000
North Sea	**39,715**	(422,495)	**1,496,219**	1,518,832
Net pre-tax impairment reversal/(charge)	**39,715**	(422,495)		

(i) Recoverable amount has been determined on a fair value less costs of disposal basis (see note 2 for further details of judgements, estimates and assumptions 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

10. Property, plant and equipment continued

For information on judgements, estimates and assumptions made in relation to impairments see 'Use of judgements, estimates and assumptions' within note 2.

The 2021 net impairment reversal of $39.7 million relates to producing assets in the UK North Sea. Impairment reversals were primarily driven by an increase in EnQuest's near-term future oil price assumptions. The CGUs on which impairment reversals relate were $53.7 million for Kraken and $6.1 million for Alba. In addition, impairment losses of $20.1 million were incurred relating to the GKA and Scolty/Crathes CGU, primarily as a result of forecast increased costs and lower production.

The 2020 impairment charge of $422.5 million related to producing assets in the UK North Sea. Impairment losses were primarily driven by a reduction in EnQuest's future oil price assumptions and the decision to cease production at Dons. The principal CGUs on which significant impairment losses were incurred in 2020 were $380.3 million for Kraken, $28.2 million for Alba and $14.6 million for Dons.

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. For information on significant estimates and judgements made in relation to impairments see Use of judgements, estimates and assumptions: recoverability of asset carrying values within note 2.

A summary of goodwill is presented below:

	2021 $'000	2020 $'000
Cost and net carrying amount		
At 1 January	**134,400**	134,400
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, based on current estimates of reserves and resources, 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 life of a field depends on the interaction of a number of variables such as the recoverable quantity of hydrocarbons, the production profile of the hydrocarbons, the capex necessary to recover the hydrocarbons, production costs and the selling price of the hydrocarbons produced. Estimated production volumes and cash flows up to the date of cessation of production on a field-by-field basis, including operating and capital expenditure, are derived from the Group's business plan. Oil price assumptions and discount rate assumptions used were as disclosed in note 2. An impairment charge of nil was taken in 2021 (2020: nil) 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% 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 a net impairment of $54.7 million (2020: 10% reduction would result in a net impairment of $14.0 million). A 20% reduction in oil price would fully impair goodwill (2020: 13%).

12. Intangible assets

Accounting policy

Exploration and appraisal assets
Exploration and appraisal assets 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 2021, there was no impairment of historical exploration and appraisal expenditures (2020: nil).

Other intangibles
UK emissions allowances ('UKAs') purchased to settle the Group's liability related to emissions are recognised on the balance sheet as an intangible asset at cost. The UKAs will be derecognised upon settling the liability with the respective regulator.

	Exploration and appraisal assets $'000	UK emissions allowances $'000	**Total $'000**
Cost:			
At 1 January 2020	174,964	–	174,964
Write-off of relinquished licences previously impaired	(12,645)	–	(12,645)
Other	(7)	–	(7)
At 1 January 2021	**162,312**	**–**	**162,312**
Additions	**10,141**	**10,052**	**20,193**
Write-off of relinquished licences previously impaired	**(72)**	**–**	**(72)**
At 31 December 2021	**172,381**	**10,052**	**182,433**
Accumulated impairment:			
At 1 January 2020	(147,411)	–	(147,411)
Write-off of relinquished licences previously impaired	12,645	–	12,645
At 1 January 2021	**(134,766)**	**–**	**(134,766)**
At 31 December 2021	**(134,766)**	**–**	**(134,766)**
Net carrying amount:			
At 31 December 2021	**37,615**	**10,052**	**47,667**
At 31 December 2020	27,546	–	27,546
At 1 January 2020	27,553	–	27,553

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.

	2021 $'000	2020 $'000
Hydrocarbon inventories	**22,835**	20,509
Well supplies	**50,188**	39,275
	73,023	59,784

During 2021, a net gain of $0.4 million was recognised within cost of sales in the Group income statement relating to inventory (2020: charge of $21.6 million).

The inventory valuation at 31 December 2021 is stated net of a provision of $43.2 million (2020: $56.7 million) to write down well supplies to their estimated net realisable value. During the year a portion of the provided for well supplies was disposed of, resulting in a net charge to the income statement of $0.2 million (2020: $24.9 million).

14. Cash and cash equivalents

Accounting policy

Cash and cash equivalents includes cash at bank, cash in hand, outstanding bank overdrafts and highly liquid interest-bearing securities with original maturities of three months or fewer.

	2021 $'000	2020 $'000
Available cash	**276,970**	221,155
Restricted cash	**9,691**	1,675
Cash and Cash Equivalents	**286,661**	22,830

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.

Restricted cash

Included within the cash balance at 31 December 2021 is restricted cash of $9.7 million. This includes $8.2 million on deposit relating to bank guarantees for the Group's Malaysian assets and $1.5 million related to cash collateralised letters of credit. In 2020, the restricted cash balance of $1.7 million related to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA resources. This balance was fully collected in 2021.

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 are based on 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 when they become 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.

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 are 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.

15. Financial instruments and fair value measurement continued

Fair value measurement

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

31 December 2021	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 measured at FVPL					
Forward UKAs contracts		90	–	90	–
Forward foreign currency contracts		382	–	382	–
Other financial assets measured at FVPL					
Quoted equity shares		6	6	–	–
Total financial assets measured at fair value		478	6	472	–
Liabilities measured at fair value:					
Derivative financial liabilities measured at FVPL					
Oil commodity derivative contracts	19	55,247	–	55,247	–
Other financial liabilities measured at FVPL					
Contingent consideration	22	410,778	–	–	410,778
Total liabilities measured at fair value		466,025	–	55,247	410,778
Liabilities measured at amortised cost for which fair values are disclosed below:					
Interest-bearing loans and borrowings	18	424,864	–	–	424,864
Obligations under leases	24	570,781	–	–	570,781
Retail bond	18	244,387	244,387	–	–
High yield bond	18	773,499	773,499	–	–
Total liabilities measured at amortised cost for which fair values are disclosed		2,013,531	1,017,886	–	995,645

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	–	–
Total financial assets measured at fair value		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
Total liabilities measured at fair value		524,268		2,007	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	–	–
Total liabilities measured at amortised cost for which fair values are disclosed		1,865,600	763,545	–	1,102,055

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 (2020: no transfers).

For the financial liabilities measured at amortised cost 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

	2021 $'000	2020 $'000
Current		
Trade receivables	**94,992**	24,604
Joint venture receivables	**68,157**	53,121
Under-lift position	**35,769**	15,690
VAT receivable	**–**	10,307
Other receivables	**11,703**	1,441
	210,621	105,163
Prepayments and accrued income	**85,447**	13,552
	296,068	118,715

The carrying values 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 2021 or 2020. The Group's ECL estimates were not significantly impacted by COVID-19 during 2021.

17. Trade and other payables

	2021 $'000	2020 $'000
Current		
Trade payables	**49,701**	41,090
Accrued expenses	**297,744**	179,590
Over-lift position	**53,742**	12,732
Joint venture creditors	**10,852**	16,647
VAT payable	**7,561**	–
Other payables	**944**	5,096
	420,544	255,155

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

	2021 $'000	2020 $'000
Borrowings	**401,614**	452,284
Bonds	**1,081,596**	1,045,041
	1,483,210	1,497,325

(a) Borrowings

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

	2021			2020		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
RBL	**415,000**	**(23,250)**	**391,750**	–	–	–
Credit facility	**–**	**–**	**–**	377,270	–	377,270
Sculptor Capital facility	**–**	**–**	**–**	67,701	(1,925)	65,776
SVT working capital facility	**9,864**	**–**	**9,864**	9,238	–	9,238
Total borrowings	**424,864**	**(23,250)**	**401,614**	454,209	(1,925)	452,284
Due within one year			**210,505**			414,430
Due after more than one year			**191,109**			37,854
Total borrowings			**401,614**			452,284

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

RBL facility

On 11 June 2021, the Group signed a new RBL facility of approximately $600.0 million and an additional amount of $150.0 million for letters of credit for up to seven years. Upon refinancing of the Group's existing high yield bonds, the maturity of the new facility is extended to the earlier of seven years from its signing date, or the point at which the remaining economic reserves for all borrowing base assets are projected to fall below 25% of the initial economic reserves forecast. In the event the maturity of the new facility is not extended, any amounts drawn amortise such that they are fully repaid by the end of September 2023. In 2021 interest accrued at a rate of 4.25% plus USD LIBOR. From 1 January 2022, following the IBOR transition, interest will accrue at a rate of 4.25% plus a margin. The margin will be a combination of a fixed rate based on the interest period and SOFR. From October 2022, the fixed rate percentage will increase from 4.25% to 4.50%.

During 2021 the Group utilised $485.0 million of the RBL, $360.0 million in July and $125.0 million in October. In December 2021, the Group voluntarily repaid $70.0 million ahead of the planned amortisation schedule. As at 31 December 2021, the carrying value of the facility was $391.8 million, comprising the principal of $415.0 million and unamortised fees of $23.3 million.

At 31 December 2021, after allowing for letter of credit utilisation of $53.0 million, $32.0 million remained available for drawdown under the credit facility.

Credit facility

During the period, the Group repaid its outstanding debt on the Credit facility of $378.1 million.

Sculptor Capital facility

During the period, the Group repaid its outstanding debt on the Sculptor Capital facility of $67.7 million.

SVT working capital facility

On 1 December 2020, EnQuest 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 guaranteed by BP EOC Limited. The facility is able to be drawn down against, in instalments, and accrues interest at 1.0% per annum plus GBP LIBOR.

(b) Bonds

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

	2021			2020		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
High yield bond	**827,166**	**(1,725)**	**825,441**	799,194	(2,666)	796,528
Retail bond	**256,574**	**(419)**	**256,155**	249,161	(648)	248,513
Total bonds due after more than one year	**1,083,740**	**(2,144)**	**1,081,596**	1,048,355	(3,314)	1,045,041

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 2020, 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 above carrying value of the bond as at 31 December 2021 is $825.4 million (2020: $796.5 million). This includes bond principal of $827.2 million (2020: $799.2 million) less unamortised fees of $1.7 million (2020: $2.7 million). The high yield bond does not include accrued interest of $12.2 million (2020: $11.8 million) and liability for the IFRS 9 Financial Instruments loss on modification of $2.6 million (2020: $4.6 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 2020, 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 above carrying value of the bond as at 31 December 2021 is $256.2 million (2020: $248.5 million). This includes bond principal of $256.6 million (2020: $249.2 million) less unamortised fees of $0.4 million (2020: $0.6 million). The retail yield bond does not include accrued interest of $6.2 million (2020: $6.3 million) and liability for the IFRS 9 Financial Instruments loss on modification of $7.4 million (2020: $11.9 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

	2021		2020	
	Assets $'000	**Liabilities $'000**	Assets $'000	Liabilities $'000
Fair value through profit or loss:				
Derivative commodity contracts	**–**	**55,245**	–	2,007
Derivative foreign exchange contracts	**382**	**–**	–	–
Commodity futures	**–**	**2**	–	–
Derivative UKAs contracts	**90**	**–**	–	–
Total current	**472**	**55,247**	–	2,007
Fair value through profit or loss:				
Quoted equity shares	**6**	**–**	7	–
Total non-current	**6**	**–**	7	–

19. Other financial assets and financial liabilities continued

(b) Income statement impact

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

	Revenue and other operating income		Cost of sales	
Year ended 31 December 2021	**Realised $'000**	**Unrealised $'000**	**Realised $'000**	**Unrealised $'000**
Commodity options	**(62,016)**	**(55,570)**	**–**	**–**
Commodity swaps	**(4,258)**	**1,121**	**–**	**–**
Commodity futures	**985**	**(2)**	**–**	**–**
Foreign exchange contracts	**–**	**–**	**(4)**	**382**
UKA contracts	**–**	**–**	**10,697**	**90**
	(65,289)	**(54,451)**	**10,693**	**472**

	Revenue and other operating income		Cost of sales	
Year ended 31 December 2020	Realised $'000	Unrealised $'000	Realised $'000	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)

(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 2021, losses totalling $119.7 million (2020: gains of $2.7 million) were recognised in respect of commodity contracts designated as FVPL. This included losses totalling $65.3 million (2020: losses of $6.1 million) realised on contracts that matured during the year, and mark-to-market unrealised losses totalling $54.5 million (2020: gains of $8.8 million). Of the realised amounts recognised during the year, a loss of $1.0 million (2020: gain of $6.2 million) was realised in Business performance revenue in respect of the premium expense received on sale of these options.

The mark-to-market value of the Group's open commodity contracts as at 31 December 2021 was a liability of $55.2 million (2020: liability of $2.0 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 2021, gains totalling $0.4 million (2020: losses of $1.4 million) were recognised in the Group income statement. This included realised gains totalling $0.1 million (2020: gains of $0.6 million) on contracts that matured in the year.

The mark-to-market value of the Group's open contracts as at 31 December 2021 was $0.4 million (2020: nil).

(e) UK emissions allowance forward contracts

The Group enters into forward contracts for the purchase of UKAs to manage its exposure to price. In 2020 these contracts were treated as own use contracts and not accounted for as derivatives. During 2021 a number of open contracts were closed out early. The result of this was the Group no longer being able to account for UKAs forwards as own use and recognising them as derivatives. During the year ended 31 December 2021, gains totalling $10.8 million (2020: nil) were recognised in the income statement. This included realised gains totalling $10.7 million (2020: nil) on contracts that matured in the year.

The mark-to-market value of the Group's open contracts as at 31 December 2021 was $0.1 million (2020: nil).

(f) Other receivables

	2021 $'000	2020 $'000
At 1 January	**7**	6,874
Change in fair value	**(1)**	(4)
Utilised during the year	**–**	(7,138)
Unwinding of discount	**–**	275
At 31 December	**6**	7
Non-current	**6**	7
	6	7

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.

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 2021	1,695,801,955	118,271	227,149	345,420
Issuance of equity shares	190,122,384	13,379	37,346	50,725
Expenses of issuance of equity shares	–	–	(3,949)	(3,949)
At 31 December 2021	**1,885,924,339**	**131,650**	**260,546**	**392,196**

At 31 December 2021, there were 39,718,323 shares held by the Employee Benefit Trust (2020: 46,492,546). On 26 July 2021, 2,159,903 shares were acquired by the Employee Benefit Trust pursuant to the firm placing, placing and open offer. The remaining movement in the year was due to shares used to satisfy awards made under the Company's share-based incentive schemes.

On 26 July 2021, the Group completed a firm placing, placing and open offer pursuant to which 190,122,384 new Ordinary shares were issued at a price of £0.19 per share, generating gross aggregate proceeds of $50.7 million. Following the admission to the market of an additional 190,122,384 Ordinary shares on 26 July 2021, there were 1,885,924,339 Ordinary shares in issue at the end of the year.

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.

Information on these plans for Directors is shown in the Directors' remuneration report on pages 86 to 88.

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.

21. Share-based payment plans continued

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 Group operates a number of equity-settled employee share plans under which share units are granted to the Group's senior leaders and certain other employees. These plans typically have a three-year performance or restricted period. Leaving employment will normally preclude the conversion of units into shares, but special arrangements apply for participants that leave for qualifying reasons.

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

	2021 $'000	2020 $'000
Performance Share Plan	**5,241**	3,277
Other performance share plans	**135**	364
Sharesave Plan	**975**	(240)
	6,351	3,401

The following table shows the number of shares potentially issuable under equity-settled employee share plans, including the number of options outstanding and the number of options exercisable at the end of each year.

Share plans	2021 Number	2020 Number
Outstanding at 1 January	**110,263,670**	77,374,961
Granted during the year	**35,552,383**	53,223,408
Exercised during the year	**(8,056,525)**	(6,288,132)
Forfeited during the year	**(12,265,533)**	(14,046,567)
Outstanding at 31 December	**125,493,995**	110,263,670
Exercisable at 31 December	**14,249,920**	11,894,904

In addition, the Group operates an approved savings-related share option scheme (the Sharesave Plan). 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 following table shows the number of shares potentially issuable under equity-settled employee share option plans, including the number of options outstanding, the number of options exercisable at the end of each year and the corresponding weighted average exercise prices.

	2021		2020	
Share options	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding at 1 January	**42,383,654**	**0.13**	42,589,522	0.16
Granted during the year	**1,370,748**	**0.25**	34,719,941	0.13
Exercised during the year	**(885,646)**	**0.10**	(452,545)	0.14
Forfeited during the year	**(5,349,829)**	**0.15**	(34,473,264)	0.17
Outstanding at 31 December	**37,518,927**	**0.14**	42,383,654	0.13
Exercisable at 31 December	**422,981**	**0.16**	449,912	0.15

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.

Any contingent consideration included in the consideration payable for an asset acquisition is recorded at fair value at the date of acquisition and included in the initial measurement of cost. Subsequent measurement changes relating to the variable consideration are capitalised as part of the asset value if it is probable that future economic benefits associated with the asset will flow to the Group and can be measured reliably.

	Magnus 75% $'000	Magnus decommissioning-linked liability $'000	Golden Eagle $'000	Total $'000
At 31 December 2020	**507,660**	**14,601**	**–**	**522,261**
Additions	–	–	44,668	44,668
Change in fair value (see note 5(d))	(145,273)	5,194	–	(140,079)
Unwinding of discount (see note 6)	50,766	1,460	507	52,733
Interest on vendor loan (see note 6)	6,169	–	–	6,169
Utilisation	(74,695)	(279)	–	(74,974)
At 31 December 2021	**344,627**	**20,976**	**45,175**	**410,778**
Classified as:				
Current	26,225	4,252	–	30,477
Non-current	318,402	16,724	45,175	380,301
	344,627	20,976	45,175	410,778

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 financed by BP was fully settled in June 2021. 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. Oil price assumptions and discount rate assumptions used were as disclosed in Use of judgements, estimates and assumptions within note 2. The contingent consideration was fair valued at 31 December 2021, which resulted in a decrease in fair value of $145.3 million (2020: decrease of $137.4 million). The decrease in fair value in 2021 is a result of revised operating cost assumptions. The decrease in 2020 reflected the change in oil price assumptions. The fair value accounting effect and finance costs of $57.0 million (2020: $77.3 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 2021 in the present value calculations (2020: cap was not met). Within the statement of cash flows the profit share element of the repayment, $1.0 million (2020: $41.1 million), is disclosed separately under investing activities; the repayment of the vendor loan, $73.7 million (2020: $20.7 million), is disclosed under financing activities; and the interest paid on the vendor loan, $6.2 million (2020: $10.3 million), is included within interest paid under financing activities. As part of the Golden Eagle area transaction, the repayment of the vendor loan was completed in July 2021. At 31 December 2021, the contingent consideration for Magnus was $344.6 million (31 December 2020: $507.7 million).

22. Contingent consideration continued

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 $85.1 million or an increase of $85.1 million to the contingent consideration, respectively (2020: reduction of $91.7 million and increase of $91.7 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.

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 2021, 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 2021, the amount due to BP calculated on an after-tax basis by reference to 30% of BP's decommissioning costs on Magnus was $21.0 million (2020: $14.6 million).

Golden Eagle contingent consideration

On 22 October 2021, the Group completed the acquisition of the entire 26.69% non-operated working interest in the Golden Eagle Area Development, comprising the producing Golden Eagle, Peregrine and Solitaire fields (see note 10). The consideration for the acquisition included an amount that was contingent on the average oil price between July 2021 and June 2023. 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 $25.0 million is payable, or if the Dated Brent average crude price equals or exceeds $65/bbl, upon which $50.0 million is payable. The contingent consideration liability is discounted at 7% and is calculated principally based on the oil price assumptions as disclosed in note 2. At 31 December 2021, the contingent consideration was valued at $45.2 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 for producing assets. For assets that have ceased production, the change in estimate is reflected as an adjustment to the provision and the Group Income Statement, via other income or expense. 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 believes 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 Use of judgements, estimates and assumptions: provisions within 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 2020	778,204	53,066	9,137	840,407
Additions during the year	119,312	–	13,390	132,702
Changes in estimates	(22,059)	6,184	(264)	(16,139)
Unwinding of discount	15,856	1,061	–	16,917
Utilisation	(55,594)	(16,553)	(6,970)	(79,117)
Foreign exchange	2	172	(2)	172
At 31 December 2021	835,721	43,930	15,291	894,942
Classified as:				
Current	116,229	9,156	15,291	140,676
Non-current	719,492	34,774	–	754,266
	835,721	43,930	15,291	894,942

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. Additions during the year relate to the decommissioning provision recognised as part of the Golden Eagle acquisition. At 31 December 2021, an estimated $409.6 million is expected to be utilised between one and five years (2020: $329.2 million), $81.4 million within six to ten years (2020: $145.1 million), and the remainder in later periods.

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 2021, the Group held surety bonds totalling $240.8 million (2020: $151.7 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 2021, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Thistle and Deveron was $43.9 million (2020: $53.1 million). Unwinding of discount of $1.1 million is included within finance income for the year ended 31 December 2021 (2020: $0.8 million).

Other provisions
During 2020, a riser at the Seligi Alpha platform which provides gas lift and injection to the Seligi Bravo platform detached. A provision with respect to required repairs to remedy the damage caused was established. During 2021, $4.4 million was utilised and at 31 December 2021, the provision was $1.5 million (31 December 2020: $5.9 million).

During 2021, the Group recognised $8.2 million in relation to disputes with third-party contractors. The Group expects the dispute to be settled in 2022.

Other provisions from 31 December 2020 were fully utilised in the year. These included a redundancy provision in relation to the transformation programme undertaken during 2020/2021 (31 December 2020: $1.2 million) and payment of partners' share of pipeline oil stock following cessation of production at Heather (31 December 2020: $1.5 million).

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.

24. Leases continued

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.

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 2019	685,199	716,166
Additions in the period	2,812	2,812
Depreciation expense	(82,703)	–
Impairment	(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**
Additions in the period (see note 10)	**17,815**	**17,815**
Depreciation expense (see note 10)	**(63,953)**	**–**
Impairment reversal (see note 10)	**15,669**	**–**
Disposal	**(2,580)**	**(3,121)**
Interest expense	**–**	**45,359**
Payments	**–**	**(136,651)**
Foreign exchange movements	**–**	**(467)**
As at 31 December 2021	**463,393**	**570,781**
Current		**128,281**
Non-current		**442,500**
		570,781

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

Amounts recognised in profit or loss

	Year ended 31 December 2021 $'000	Year ended 31 December 2020 $'000
Depreciation expense of right-of-use assets	**63,953**	82,703
Interest expense on lease liabilities	**45,359**	50,851
Rent expense – short-term leases	**1,028**	12,736
Rent expense – leases of low-value assets	**5**	43
Total amounts recognised in profit or loss	**110,345**	146,333

Amounts recognised in statement of cash flows

	Year ended 31 December 2021 $'000	Year ended 31 December 2020 $'000
Total cash outflow for leases	**136,651**	123,001

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 2021 was $1.7 million (2020: $1.7 million).

24. Leases continued

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

	2021 $'000	2020 $'000
Less than one year	**2,206**	2,211
One to two years	**2,206**	2,211
Two to three years	**2,206**	2,211
Three to four years	**2,206**	2,211
Four to five years	**2,206**	1,508
More than five years	**1,204**	1,093
Total undiscounted lease payments	**12,234**	11,444

25. Commitments and contingencies

Capital commitments

At 31 December 2021, the Group had capital commitments amounting to $1.9 million (2020: nil).

Other commitments

In the normal course of business, the Group will obtain surety bonds, letters of credit and guarantees. At 31 December 2021, the Group held surety bonds totalling $240.8 million (2020: $151.7 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 Group 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 Group balance sheet or profitability, nor, so far as the Group 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 2021 (2020: none).

Office sub-lease

During the year ended 31 December 2021, the Group recognised nil (2020: $0.1 million) 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.

	2021 $'000	2020 $'000
Short-term employee benefits	**6,890**	7,576
Share-based payments	**810**	107
Post-employment pension benefits	**215**	224
	7,915	7,907

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 cash equivalents, 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 2021 and 2020, 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. On a rolling quarterly basis, under the RBL, the Group is required to hedge a minimum of 60% of volumes of net entitlement production expected to be produced in the next 12 months, 40% of volumes of net entitlement produced expected for following 12 months and 10% of volumes of net entitlement production expected to be produced in the subsequent period. This requirement ceases at the end date of the facility.

Details of the commodity derivative contracts entered into during and open at the end of 2021 are disclosed in note 19. As of 31 December 2021, the Group held financial instruments (options and swaps) related to crude oil that covered 8.0 MMbbls of 2022 production and 3.5 MMbbls of 2023 production. The instruments have an effective average floor price of around $62.5/bbl in 2022 and $57.5/bbl in 2023. 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 2021.

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 2021	**(91,755)**	**55,267**
31 December 2020	(8,020)	1,365

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 18% (2020: 8%) of the Group's sales and 89% (2020: 86%) 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 2021	**GBP $'000**	**MYR $'000**	**Other $'000**	**Total $'000**
Total financial assets	**103,253**	**34,255**	**3,967**	**141,475**
Total financial liabilities	**635,840**	**21,058**	**839**	**657,737**

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

27. Risk management and financial instruments continued

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 2021	**(50,695)**	**50,695**
31 December 2020	(46,183)	46,183

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 2021 there were $0.2 million of trade receivables past due (2020: $2.6 million) and nil of joint venture receivables past due (2020: $2.5 million) but not impaired. Subsequent to the year end, $0.1 million of these outstanding balances have been collected (2020: $4.4 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	2021 $'000	2020 $'000
Less than 30 days	–	2,974
30–60 days	**30**	1,335
60–90 days	**146**	164
90–120 days	–	271
120+ days	–	383
	176	5,127

At 31 December 2021, the Group had one customer accounting for 84% of outstanding trade receivables (2020: three customers, 77%) and one joint venture partner accounting for 20% of outstanding joint venture receivables (2020: one joint venture partner, 16%).

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 2021, $32.0 million (2020: $61.2 million) was available for drawdown under the Group's 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 Group's liabilities, except for the RBL, are unsecured.

Year ended 31 December 2021	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	–	**241,937**	**204,081**	–	–	**446,018**
Bonds[(i)]	–	**75,862**	**1,162,595**	–	–	**1,238,457**
Contingent considerations	–	**26,225**	**68,947**	**115,485**	**183,969**	**394,626**
Obligations under finance leases	–	**125,374**	**95,464**	**311,276**	**35,844**	**567,958**
Trade and other payables	–	**420,543**	–	–	–	**420,543**
	–	**889,941**	**1,531,087**	**426,761**	**219,813**	**3,067,602**

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	–	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

(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 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 2021	**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	**4,450**	**17,288**	**24,035**	**15,746**	**–**	**61,519**
	4,450	**17,288**	**24,035**	**15,746**	**–**	**61,519**

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

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 external risks, see Commodity price risk – oil prices and Foreign exchange risk. 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).

	2021 $'000	2020 restated $'000
Loans, borrowings and bond(i) (A) (see note 18)	**1,508,604**	1,502,564
Cash and short-term deposits (see note 14)	**(286,661)**	(222,830)
Net debt (B)	**1,221,943**	1,279,734
Equity attributable to EnQuest PLC shareholders (C)	**543,766**	(207,377)
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**376,988**	(469,927)
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**220,284**	(26,187)
Adjusted EBITDA (F)	**742,868**	550,606
Gross gearing ratio (A/C)	**2.8**	n/a
Net gearing ratio (B/C)	**2.2**	n/a
Net debt/Adjusted EBITDA (B/F)	**1.6**	2.3
Shareholders' return on investment (D/C)	**74%**	n/a
Shareholders' return on investment excluding exceptionals (E/C)	**41%**	n/a

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

28. Subsidiaries

At 31 December 2021, 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 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[2]	Construction, ownership and operation of an oil pipeline	Scotland	100%
EnQuest Global Services Limited(i)[3]	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)[4]	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%
EnQuest Progress Limited(i)	Exploration, extraction and production of hydrocarbons	England	100%
North Sea (Golden Eagle) Resources Ltd	Exploration, extraction and production of hydrocarbons	England	100%

(i) Held by subsidiary undertaking

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

Registered office addresses:
1 Suite 2200, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9
2 Annan House, Palmerston Road, Aberdeen, Scotland, AB11 5QP, United Kingdom
3 Ground Floor, Colomberie House, St Helier, JE4 0RX, Jersey
4 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 2021 $'000	Year ended 31 December 2020 restated(i) $'000
Profit/(loss) before tax		**352,441**	(565,975)
Depreciation	5(c)	**7,492**	7,616
Depletion	5(b)	**305,578**	438,247
Net impairment (reversal)/charge to oil and gas assets	4	**(39,715)**	422,495
Write down of inventory		**151**	24,940
Change in fair value of investments		**1**	4
Share-based payment charge	5(f)	**6,351**	3,401
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 Magnus related contingent consideration	22	**(81,684)**	(60,991)
Change in provisions	23	**16,900**	119,642
Other non-cash income	5(d)	**(22,568)**	–
Other expense on final settlement relating to the Magnus acquisition	5(e)	**3,832**	–
Change in Golden Eagle related contingent consideration	22	**507**	–
Option premiums	19	**1,030**	(6,226)
Unrealised (gain)/loss on commodity financial instruments	5(a)	**54,451**	(8,778)
Unrealised (gain)/loss on other financial instruments	5(b)	**(472)**	1,932
Unrealised exchange loss/(gain)		**(425)**	5,067
Net finance expense		**152,306**	163,339
Operating profit before working capital changes		**756,176**	535,460
Decrease/(increase) in trade and other receivables		**(171,946)**	184,560
(Increase)/decrease in inventories		**(13,496)**	(5,438)
(Decrease)/increase in trade and other payables		**186,194**	(147,417)
Cash generated from operations		**756,928**	567,165

(i) 2020 comparative restated. See note 2 Basis of preparation – Restatements

Changes in liabilities arising from financing activities

	Loans and borrowings $'000	Bonds $'000	Lease liabilities $'000	Total $'000
At 1 January 2020	(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)**
Cash movements:				
Repayments of loans and borrowings	**184,276**	**–**	**–**	**184,276**
Drawdowns of loans and borrowings	**(125,000)**			**(125,000)**
Repayment of lease liabilities	**–**	**–**	**136,651**	**136,651**
Cash interest paid in year	**19,428**	**38,154**	**–**	**57,582**
Non-cash movements:				
Additions	**2,082**	**–**	**(17,815)**	**(15,733)**
Interest/finance charge payable	**(20,206)**	**(69,085)**	**(45,359)**	**(134,650)**
Fee amortisation	**(9,857)**	**(1,173)**	**–**	**(11,030)**
Disposal	**–**	**–**	**3,121**	**3,121**
Foreign exchange and other non-cash movements	**(14)**	**1,876**	**467**	**2,329**
At 31 December 2021	**(402,065)**	**(1,109,920)**	**(570,781)**	**(2,082,766)**

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)
Principal	**(424,864)**	**(1,083,740)**	**(570,781)**	**(2,079,385)**
Unamortised fees	**23,250**	**2,144**	**–**	**25,394**
Accrued interest (note 17)	**(451)**	**(28,324)**	**–**	**(28,775)**
At 31 December 2021	**(402,065)**	**(1,109,920)**	**(570,781)**	**(2,082,766)**

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 Remeasurements and exceptional items	2020 Reported in year	2019 Business performance	2019 Remeasurements and exceptional items	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.

Independent Auditor’s Report

to the Members of EnQuest PLC (Registered number: 07140891)

Our opinion on the financial statements

In our opinion:

- EnQuest PLC’s Group financial statements and parent company financial statements (the ‘financial statements’) give a true and fair view of the state of the Group’s and of the parent company’s affairs as at 31 December 2019 and of the Group’s loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and IFRS 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 FRS 101 ‘Reduced Disclosure Framework’; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

EnQuest PLC’s financial statements comprise:

Group	Parent company
Group Balance Sheet	Company Balance Sheet
Group Statement of Comprehensive Income	Company Statement of Changes in Equity
Group Statement of Changes in Equity	Notes 1 to 11 to the Company financial statements
Group Statement of Cash Flows	
Notes 1 to 31 to the Group financial statements	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union. 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).

Basis for opinion

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

We believe that the audit evidence we have obtained during the planning, execution and conclusion of our audit is sufficient and appropriate to provide a suitable basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements which indicates that, due to oil price volatility, the Group could fail a quarterly liquidity covenant and in such circumstances would request a covenant waiver. The risk of not being able to obtain a waiver represents a material uncertainty. As stated in note 2, this material uncertainty may cast significant doubt on the Group’s or the parent company’s ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or parent company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

We describe below how our audit responded to the risk relating to going concern:

- The audit engagement partner increased his time directing and supervising the audit procedures on going concern;
- Our audit procedures have focused on management’s estimation process including the key assumptions used in the Directors’ assessment and cash flow model including oil prices, production profiles and future costs. We performed our own sensitivity calculations on key assumptions to test the adequacy of the available headroom and EnQuest’s covenant compliance;
- We considered whether management has exercised any bias in selecting their assumptions. We identified forecast oil prices as the key assumption in the going concern assessment. Management’s forecasts took account of the market volatility observed in March 2020. In conjunction with EY Valuation specialists, we audited management’s oil and gas price assumptions in their Base case and their plausible downside case. Our audit procedures included a comparison of management’s price assumptions with those of market participants released since 9 March 2020 when significant price volatility was first observed. We also compared management’s prices to the most recent Brent futures prices;
- We re-performed management’s reverse stress testing over prices in response to the recent market volatility, to confirm their results. This included the reverse stress test on liquidity as well as the reverse stress test on the liquidity covenant;
- We ensured the forecasts for opex and capex incorporated in the model were consistent with the two revisions to the budget in response to the recent price volatility. We discussed the nature and drivers of the cost savings with financial and operational management and have verified these through review of the forecast costs that were included in the asset impairment model that we have audited. We also assessed historical forecasting accuracy through forecast versus actual analysis;

- We ensured that production profiles used in the going concern model were in line with the production profiles audited as part of our impairment testing described above. We checked that the profiles and capex/opex reflected the announced shut-downs of assets. We compared management's production profiles with prior period forecasts, investigating any significant variances and corroborating the drivers of variances to our understanding obtained when performing other audit procedures including reserve estimation and impairment. We analysed management's operational response to COVID-19 as part of our consideration of COVID-19's potential impact on production;
- We compared forecast future cash flows to historical data, ensuring variations are in line with our expectations and understanding of the business and considered the reliability of past forecasts;
- We tested the mathematical accuracy and integrity of the model;
- We tested the covenant calculations to ensure they had been calculated correctly in accordance with the revolving credit facility agreement;
- We agreed the available facilities and arrangements to underlying agreements and external confirmation from debt providers; and
- We reviewed the disclosures made in the Annual Report and Accounts as highlighted in the above section of our opinion covering going concern.

Key observations communicated to the Audit Committee

We reported to the 18 March 2020 meeting of the Audit Committee that our audit procedures were still ongoing in light of the recent market volatility and management's ongoing process to update their budgets. Subsequently we reported that we have audited the going concern model, where under both the Base case and downside case, the Group does not forecast any covenant breach or liquidity shortfall during the going concern period. We reported that management had appropriately updated their model to take account of oil price volatility and the two cost reduction programmes. We reported that management had performed appropriate reverse stress testing in light of current oil price volatility, which indicates that the risk of liquidity expiring in the going concern period is remote. We reported that we agree with the conclusion that, in light of current oil price volatility, the company could breach the quarterly liquidity covenant and that the risk of not being able to obtain a waiver for such a breach represents a material uncertainty. We have also concluded that management have made appropriate disclosures in the financial statements.

We draw attention to the viability statement on page 33, which indicates that an assumption to the statement of viability is that a waiver would be forthcoming for any potential covenant breach. The Directors consider that the material uncertainty referred to in respect of going concern may cast significant doubt over the future viability of the Group. Our opinion is not modified in respect of this matter.

Conclusions relating to principal risks, going concern and viability statement

Aside from the impact of the matters disclosed in the material uncertainty related to going concern section, we have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the Annual Report set out on pages 44 to 53 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation set out on page 44 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- The Directors' statement set out on pages 32 to 33 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- Whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out on pages 32 to 33 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Valuation of Magnus contingent consideration • Impairment of tangible assets and goodwill
Audit scope	• We performed an audit of the complete financial information of the UK component (full scope) and audit procedures on the Malaysia component (specific scope) • Through our on-site work on full and specific scope entities in the UK and Malaysia we have covered 100% of Group's EBITDA, 100% of Group's revenue and 99% of Group's total assets
Materiality	• Overall Group materiality of $20.1 million which represents 2% of Business performance EBITDA

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 for 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of Magnus contingent consideration of $657.3 million		Risk Direction: ↑
Refer to the Audit Committee Report (pages 64 to 70); Accounting policies (from page 116); and note 22 of the Annual Report and Accounts		
The acquisition of Magnus has resulted in the recognition of contingent consideration for both the initial 25% acquisition in 2017 and the subsequent 75% acquisition in 2018. The valuation of this contingent consideration is complex, involving significant judgements around future cash flows. These judgements include: oil prices; production profiles; discount rates; as well as the timing of the resulting cash flows. Given the value of the contingent consideration ($657 million at 31 December 2019) there is a risk that misstatement could lead to a material error. In addition to this, any change in value of the contingent consideration is recorded directly in the Group statement of comprehensive income. The risk was included with risk related to the acquisition accounting of the 25% stake (2017) and 75% stake (2018) in Magnus.	We documented our understanding and walked through EnQuest's process for valuing the contingent consideration. We tested the Magnus cash flow model for clerical accuracy by re-performing the calculation. The key inputs to EnQuest's cash flow model included oil price assumptions, production profiles, future capital and operating expenditures and discount rates. All assumptions included in the model are as at 31 December 2019. Our procedures included: • Oil Prices: We have analysed market participant price assumptions (including the views of banks, brokers and consultants) to determine our own range of commodity prices as at 31 December 2019. We have compared and benchmarked this to management's price assumptions and determined management's assumption to be within our reasonable range; • Production profiles, future capital and operating expenditures: EnQuest made their own estimates for these assumptions and used an external specialist to audit these estimates. We reviewed and challenged the work of management's external specialist by checking data inputs, challenging and verifying assumptions, and checking the application of the resulting estimates to the accounts. We evaluated the competence of internal specialists and the competence and objectivity of EnQuest's external specialist. We have met with the internal and external specialists to evaluate the appropriateness of their work and findings; and • We used our valuations specialists to calculate our own discount rates range to assist in our assessment of management's discount rate. The work was performed by the primary team.	We reported to the Audit Committee that the contingent consideration was materially correctly stated. We also reported that the assumptions related to oil prices were within our reasonable range and assumptions related to production profiles and future capital and operating expenses were reasonable. We communicated that the discount rate of 10% was at the top end of our reasonable range of 8–10%. We audited the associated disclosures and consider them to be reasonable.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of tangible oil and gas assets and goodwill $637.5 million and $149.6 million, respectively		Risk direction:
Refer to the Audit Committee Report (pages 64 to 70); Accounting policies (from page 116); and notes 10 and 11 of the Annual Report and Accounts		
Fluctuations in mid to long–term commodity prices and other judgemental areas such as reserves, production and cost profiles create potential indicators for impairment triggers. Accounting standards require management to assess whether indicators of impairment or impairment reversal exist. Where indicators exist, management must carry out an impairment test. In addition, accounting standards require an annual test of goodwill. As a result, all UK assets are reviewed as part of the annual goodwill impairment test. The risk remains the same when compared to the prior year.	We tested the completeness of indicators of impairment loss identified by management through assessment of changes in reserves, asset performance and market conditions. Where a formal impairment test was required, we tested the impairment model for clerical accuracy by re–performing the calculation and we audited management's assumptions and sensitivities. This included specifically the determination of cash generating units, oil prices, production profiles, capital and operating expenditure and discount rates. Our procedures included: • Oil Prices: We have analysed market participant price assumptions (including the views of banks, brokers and consultants) to determine our own range of commodity prices. We have compared and benchmarked this to management's price assumptions and determined management's assumption to be within our reasonable range; • Production profiles, future capital and operating expenditures: EnQuest's made their own estimates for these assumptions and used an external specialist to audit these estimates. We reviewed and challenged the work of management's external specialist by checking data inputs, challenging and verifying assumptions, and checking the application of the resulting estimates to the accounts. We evaluated the competence of internal specialists and the competence and objectivity of EnQuest's external specialist. We have met with the internal and external specialists to evaluate the appropriateness of their work and findings; and • Discount rates: We used our valuations specialists to calculate our own discount rate range to assist in our assessment of management's discount rate. In light of the potential impact of energy transition, we analysed the volume and value of reserves that are expected to be produced after 2030 and 2040 respectively. We have considered the IEA World Energy Outlook 'Sustained Development' forecast prices which aligns to the targets of the Paris Accord. The work was performed by the primary team with assistance from our Kuala Lumpur office (Malaysia). We carried out procedures to understand and walk through EnQuest's process for identifying impairment triggers and considered managements' assessment of indicators.	We reported to the Audit Committee that the impairment charge was materially correctly stated. As noted, the oil price assumptions were within the EY independent reasonable range and production profiles and future capital and operating expenditures were reasonable. We communicated that the discount rate of 10% was at the top end of our reasonable range of 8–10%. We did not identify any indication of management bias in the estimation process. We communicated that 22% and 3% of the recoverable amount of EnQuest's assets relate to reserves that are expected to be produced after 2030 and 2040, respectively. Consequently, we do not believe that EnQuest's 2P reserves, as well as associated tangible oil and gas properties, are significantly exposed to the risks of energy transition.

In the prior year, our auditor's report included a key audit matter in relation to going concern where we made an assessment whether going concern met the definition of a key audit matter, whether the appropriate disclosures had been made and discussed what we reported to the Audit Committee. Since we have concluded there is a material uncertainty in the current year, we have included a section in the auditor's report: 'Material uncertainty related to going concern' to discuss the material uncertainty that may cast significant doubt on the Group's or the parent company's ability to continue as a going concern.

The 'impact of estimation of the quantity of oil and gas reserves' was considered to be a Key Audit Matter in 2018 due to the significant audit effort required around the external information available in relation to EnQuest's Kraken joint venture partner's reserves estimate and how this differed from EnQuest's reserve estimate. This year's audit procedures required less effort and were completed through our impairment and Magnus contingent consideration procedures, hence this was not included as a Key Audit Matter.

In the prior year the 'complexity of the acquisition accounting for 75% of Magnus' was considered to be a Key Audit Matter. Since the acquisition was completed in 2018, the risk is no longer relevant. We do, however, consider the 'valuation of Magnus contingent consideration' linked to acquisition to be a Key Audit Matter in 2019 as discussed above.

Revenue recognition is a significant risk presumed by ISAs (UK). It is not included above, as EnQuest's revenue streams are largely routine in nature and do not involve significant judgement or use of significant estimates. Consequently, the auditing of revenue recognition did not have the greatest effect on our overall audit strategy, the allocation of resources in the audit or in directing the efforts of the engagement team.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group–wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements of the two reporting components of the Group, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected both components covering entities within Malaysia and the UK (North Sea and Corporate), which represent the principal business units within the Group.

Of the two components selected, we performed an audit of the complete financial information of the UK business unit (full scope component), which were selected based on their size or risk characteristics. For the Malaysian entities (specific scope components), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. We also audit the parent company in full scope and the remaining significant balances of the Group are in specific scope for audit procedures performed by the primary team.

There has been no change to our scope this year. Malaysia remained as specific scope as its contribution to Group Business performance EBITDA (the basis of materiality) remains much less significant than the UK component (2019: 10%, 2018: 10%) and there is no perceived heightened risk of material misstatement.

The reporting components where we performed audit procedures accounted for 100% (2018: 100%) of the Group's EBITDA, 100% (2018: 89%) of the Group's revenue and 99% (2018: 99%) of the Group's total assets. For the current year, the full scope component contributed 90% (2018: 90%) of the Group's EBITDA, 94% (2018: 89%) of the Group's revenue and 96% (2018: 96%) of the Group's total assets. The specific scope component contributed 10% (2018: 10%) of the Group's EBITDA, 6% (2018: 11%) of the Group's revenue and 3% (2018: 3%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components audited by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the North Sea full scope component (which represents 90% of Group EBITDA), parent company and remaining significant (non–Malaysia) balances, audit procedures were performed directly by the primary audit team. The primary team consists of the EY London and Aberdeen offices led by the Senior Statutory Auditor. For the specific scope component (Malaysia), where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary team (including the Senior Statutory Auditor) interacted regularly with the Malaysia team during various stages of the audit, including planning of the audit approach, discussing any issues arising from their work and reviewing key working papers. The primary team were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Independent Auditor's Report continued

to the Members of EnQuest PLC (Registered number: 07140891)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

Based on our professional judgement, we determined materiality for the Group to be $20.1 million (2018: $14.3 million), which is 2% (2018: 2%) of Business Performance EBITDA as included in the consolidated financial statements (non–GAAP measures from page 29). Our materiality has increased by 41% from the prior year in line with the increased Business performance EBITDA of the Group, primarily due to higher production. Accordingly, we believe the magnitude of the increase to be appropriate.

We believe that EBITDA is the most appropriate basis to use as this is the key performance indicator used by management, it is the main performance measure used in the covenant calculations associated with the Group's debt and is the measure that EnQuest presents most prominently in market communications, which is consistent with a number of other listed oil and gas entities.

We determined materiality for the parent company to be $11.5 million (2018: $8.9 million), which is 1% (2018: 1%) of equity. Our materiality threshold has increased by 29% from the previous financial year due to an increase in net assets during the year, which led to an increase in equity. The materiality is lower for the parent company as compared to the Group due to the different basis used for determining materiality. The parent company does not generate revenue and the operating expenses are minimal, so we used equity as the capital based materiality basis.

During the course of our audit, we reassessed initial materiality and there has been no significant change in final materiality from our original assessment at planning.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality should be 50% (2018: 50%) of our planning materiality, namely $10.0 million (2018: $7.2 million). We have set performance materiality at this percentage due to our understanding of the entity and past experience with the engagement.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the performance materiality allocated to components was $9.0 million (90% of Group performance materiality) for the North Sea (2018: $6.5 million) and $3.0 million (30% of Group performance materiality) for Malaysia (2018: $1.2 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We identify and capture misstatements above $1.0 million (2018: $0.7 million) which is set at 5% of planning materiality. We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $1.0 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable,** set out on page 66 — the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting,** set out on pages 64 to 70 — the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code,** set out on pages 60 to 63 — the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, set out on page 102, 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 and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety, employee matters, environmental and bribery and corruption practices.
- We understood how EnQuest PLC is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies. We obtained the Code of Business conduct and employee handbook updated as at December 2017 which is provided to all employees and those charged with governance which indicates a culture of honesty and ethical behaviour and with an emphasis on fraud prevention, which may reduce opportunities for fraud to take place. Inquiries were made of those charged with governance in part to corroborate the responses to the inquiries of management.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud.
- We considered the programs and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, location management in all full scope entities; and focused testing, as referred to in the key audit matters section above.

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

Other matters we are required to address

- We were appointed by the Board of Directors in 2010 to audit the financial statements for the year ending 31 December 2010 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is nine years, covering the years ended 31 December 2010 to 31 December 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

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.

Paul Wallek (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

8 April 2020

Notes:

1 The maintenance and integrity of the EnQuest PLC web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Group Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 Business performance $'000	2019 Remeasurements and exceptional items (note 4) $'000	2019 Reported in year $'000	2018 Business performance $'000	2018 Remeasurements and exceptional items (note 4) $'000	2018 Reported in year $'000
Revenue and other operating income	5(a)	**1,711,834**	**(65,375)**	**1,646,459**	1,201,005	97,432	1,298,437
Cost of sales	5(b)	**(1,243,570)**	**(378)**	**(1,243,948)**	(926,020)	1,718	(924,302)
Gross profit/(loss)		**468,264**	**(65,753)**	**402,511**	274,985	99,150	374,135
Net impairment (charge)/reversal to oil and gas assets	4	**–**	**(812,448)**	**(812,448)**	–	(126,046)	(126,046)
General and administration expenses	5(c)	**(7,661)**	**–**	**(7,661)**	(4,018)	–	(4,018)
Other income	5(d)	**3,446**	**–**	**3,446**	22,428	78,316	100,744
Other expenses	5(e)	**(21,881)**	**(31,735)**	**(53,616)**	(3,362)	(14,715)	(18,077)
Profit/(loss) from operations before tax and finance income/(costs)		**442,168**	**(909,936)**	**(467,768)**	290,033	36,705	326,738
Finance costs	6	**(206,596)**	**(57,165)**	**(263,761)**	(236,114)	(28)	(236,142)
Finance income	6	**2,416**	**–**	**2,416**	3,389	–	3,389
Profit/(loss) before tax		**237,988**	**(967,101)**	**(729,113)**	57,308	36,677	93,985
Income tax	7	**(23,648)**	**303,460**	**279,812**	20,887	12,406	33,293
Profit/(loss) for the year attributable to owners of the parent		**214,340**	**(663,641)**	**(449,301)**	78,195	49,083	127,278
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Transfers to income statement of cash flow hedges				**–**			(36)
Other comprehensive income for the year, net of tax				**–**			(36)
Total comprehensive income for the year, attributable to owners of the parent				**(449,301)**			127,242
Earnings per share	8	**$**		**$**	$		$
Basic		**0.131**		**(0.274)**	0.057[(i)]		0.092[(i)]
Diluted		**0.130**		**(0.274)**	0.055[(i)]		0.090[(i)]

(i) Restated to reflect the recalculated weighted average number of Ordinary shares as a result of the 2018 rights issue

The attached notes 1 to 31 form part of these Group financial statements.

Group Balance Sheet

At 31 December 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**3,450,929**	4,349,913
Goodwill	11	**134,400**	283,950
Intangible oil and gas assets	12	**27,553**	51,803
Deferred tax assets	7	**576,038**	286,721
Other financial assets	19	**11**	5,989
		4,188,931	4,978,376
Current assets			
Inventories	13	**78,644**	100,532
Trade and other receivables	16	**279,502**	275,809
Current tax receivable		**—**	20
Cash and cash equivalents	14	**220,456**	240,604
Other financial assets	19	**9,083**	66,575
		587,685	683,540
TOTAL ASSETS		**4,776,616**	5,661,916
EQUITY AND LIABILITIES			
Equity			
Share capital and premium	20	**345,420**	345,331
Merger reserve		**662,855**	662,855
Share-based payment reserve		**(1,085)**	(6,884)
Retained earnings		**(448,129)**	(17,750)
TOTAL EQUITY		**559,061**	983,552
Non-current liabilities			
Borrowings	18	**493,424**	735,470
Bonds	18	**966,231**	990,282
Leases liability	24	**614,818**	615,781
Contingent consideration	22	**545,550**	591,343
Provisions	23	**706,190**	714,749
Trade and other payables	17	**—**	18,209
Deferred tax liabilities	7	**20,919**	27,815
		3,347,132	3,693,649
Current liabilities			
Borrowings	18	**165,589**	311,261
Leases liability	24	**101,348**	93,169
Contingent consideration	22	**111,711**	69,093
Provisions	23	**56,769**	11,957
Trade and other payables	17	**419,855**	483,781
Other financial liabilities	19	**11,073**	142
Current tax payable		**4,078**	15,312
		870,423	984,715
TOTAL LIABILITIES		**4,217,555**	4,678,364
TOTAL EQUITY AND LIABILITIES		**4,776,616**	5,661,916

The attached notes 1 to 31 form part of these Group financial statements.

The financial statements were approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

Group Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital and share premium $'000	Merger reserve $'000	Cash flow hedge reserve $'000	Share-based payments reserve $'000	Retained earnings $'000	Total $'000
Balance at 31 December 2017 (as previously reported)	210,402	662,855	36	(5,516)	(106,911)	760,866
Adjustment on adoption of IFRS 9 (see note 2)	—	—	—	—	(38,117)	(38,117)
Balance at 1 January 2018	210,402	662,855	36	(5,516)	(145,028)	722,749
Profit/(loss) for the year	—	—	—	—	127,278	127,278
Other comprehensive income	—	—	(36)	—	—	(36)
Total comprehensive income for the year	—	—	(36)	—	127,278	127,242
Issue of share capital	128,916	—	—	—	—	128,916
Share-based payment	—	—	—	4,645	—	4,645
Shares issued on behalf of Employee Benefit Trust	6,013	—	—	(6,013)	—	—
Balance at 31 December 2018 (as previously reported)	**345,331**	**662,855**	**—**	**(6,884)**	**(17,750)**	**983,552**
Adjustment on adoption of IFRS 9/ IFRS 16 (see note 2)	**—**	**—**	**—**	**—**	**18,922**	**18,922**
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 income 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**

The attached notes 1 to 31 form part of these Group financial statements.

Group Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	29	**994,618**	788,629
Cash received/(paid) on sale/(purchase) of financial instruments		**4,936**	(16,363)
Proceeds from exercise of Thistle decommissioning option		**–**	50,000
Decommissioning spend	23	**(11,131)**	(10,036)
Income taxes paid		**(26,152)**	(17,798)
Net cash flows from/(used in) operating activities		**962,271**	794,432
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(234,241)**	(220,213)
Purchase of intangible oil and gas assets		**(3,241)**	–
Consideration on exercise of Magnus acquisition option		**–**	(100,000)
Repayment of Magnus contingent consideration – Profit share		**(21,581)**	–
Interest received		**1,225**	1,600
Net cash flows (used in)/from investing activities		**(257,838)**	(318,613)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		**–**	219,900
Repayment of loans and borrowings		**(394,025)**	(402,008)
Repayment of Magnus contingent consideration – Vendor loan		**(52,669)**	(48,642)
Gross proceeds from issue of shares		**–**	138,926
Shares purchased by Employee Benefit Trust		**–**	(6,013)
Share issue and debt restructuring costs paid		**–**	(3,997)
Repayment of obligations under leases	24	**(135,125)**	(144,820)
Interest paid		**(146,047)**	(136,482)
Other finance costs paid		**(2,130)**	(20,425)
Net cash flows from/(used in) financing activities		**(729,996)**	(403,560)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(25,563)**	72,258
Net foreign exchange on cash and cash equivalents		**6,562**	(4,726)
Cash and cash equivalents at 1 January		**237,200**	169,668
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**218,199**	237,200
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		**218,199**	237,200
Restricted cash	14	**2,257**	3,404
Cash and cash equivalents per balance sheet		**220,456**	240,604

The attached notes 1 to 31 form part of these Group financial statements.

Notes to the Group Financial Statements

For the year ended 31 December 2019

1. Corporate information

EnQuest PLC ('EnQuest' or the 'Company') is a limited liability company incorporated and registered in England and is listed on the London Stock Exchange and on the Stockholm NASDAQ OMX.

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 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 8 April 2020.

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 Group financial information has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2019 and applied in accordance with the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

The Group financial information has been prepared on an historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives, 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 financial statements have been prepared on the going concern basis. The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate and that the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its commitments as they fall due over the going concern period.

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 repaid the term loan on or ahead of schedule, with no further scheduled payments now due in 2020.

The Group is actively monitoring the impact on operations from COVID-19 and has implemented a number of mitigations to minimise the impact. The Group has 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. Appropriate restrictions on offshore travel have been implemented, such as self-declaration by, and isolation of, individuals who have been to affected areas and pre-mobilisation temperature checking is in operation. EnQuest's normal communicable disease process has been updated specifically in respect of COVID-19, with additional offshore isolation capability and agreements in place to transport impacted individuals back onshore in dedicated helicopters. Non-essential down-manning has been implemented, with many of the Group's onshore workforce working remotely.

While it is difficult to forecast the impact of COVID-19, at the time of publication of EnQuest's full year results, the Group's day-to-day operations continue without being materially affected.

The Group has reviewed each of its assets and related spending plans in light of the current lower oil price environment. EnQuest's updated working assumption is not to re-start production at the Heather and Thistle/Deveron fields. At the same time, the Group is implementing a material operating cost and capital expenditure reduction programme. This significantly lowers EnQuest's cost base and successful delivery of this programme is assumed in the Base case.

The Base case uses an oil price assumption of $40/bbl from March 2020 through to the end of the first quarter 2021, based on recent research analyst projections for the period. This has been sensitised under a plausible downside case ('Downside case'). The Base case and Downside case indicate that the Company is covenant compliant and able to operate within the headroom of its existing borrowing facilities for 12 months from the date of approval of the Annual Report and Accounts. Given the extreme volatility in current oil prices, the Directors have also performed reverse stress testing with the breakeven price for liquidity being c. $10/bbl.

The quarterly liquidity covenant in the facility (the 'Liquidity Test') requires that the Group 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 which is 1 October 2021. The Liquidity Test assumptions include a price deck of the average forward curve oil price, minus a 10% discount, of 15 consecutive business days starting from approximately in the middle of the previous quarter. The Base case uses $45/bbl for the remainder of 2021, with a longer-term price assumption of $60/bbl. Under these prices the Group forecasts no breaches in the Liquidity Test. Applying the 10% discount stipulated in the Liquidity Test and a further reduction in excess of 15% on Base case prices across all periods, the Group would breach this covenant, prior to any mitigations such as further cost reductions or other funding options. Given the extreme volatility in current oil prices, there is a risk of a potential covenant breach, which would therefore require a covenant waiver to be obtained. The Directors are confident that obtaining waivers from the facility providers would be forthcoming. However, the risk of not obtaining a waiver represents a material uncertainty that may cast doubt upon the Group's ability to continue to apply the going concern basis of accounting.

Notwithstanding the material uncertainty described above, after making enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, 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 the financial statements.

New standards and interpretations
The Group applied IFRS 16 Leases from 1 January 2019 and IFRS 9 Financial Instruments from 1 January 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 Leases
The Group has adopted IFRS 16 Leases from 1 January 2019, using the modified retrospective method, which resulted in changes in accounting policies and opening balance sheet adjustments, as recognised in these financial statements. The comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. As at 1 January 2019 for each identified lease, the Group has recognised a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

The Group has applied the practical expedient to grandfather the definition of a lease on transition. On application of IFRS 16, all contracts entered into before 1 January 2019 which had been identified as leases in accordance with IAS 17 are accounted for in line with IFRS 16. Contracts which have not been identified as a lease continue to be accounted for in line with their historical treatment. The Group has also elected to use the recognition exemptions proposed for lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

For leases within joint ventures, the Group has assessed 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 operating agreement, EnQuest will recharge the associated costs in line with the joint operating agreement.

At 1 January 2019, the Group recognised new right-of-use assets and lease liabilities of $60.5 million, mainly in relation to property and oil and gas vessels. This has decreased from $79.5 million reported in the half year condensed financial statements for the period ended 30 June 2019 due to recalculation of lease effective interest rates, decreasing the recognition value, and clarification on joint venture vessel leases held in Malaysia, resulting in the recognition of the leases increasing from the working interest percentage to 100% recognition as EnQuest is the only party with legal obligations. When measuring lease liabilities, the lease payments were discounted using the applicable company's incremental borrowing rate at 1 January 2019. The weighted-average incremental borrowing rate applied by EnQuest upon transition was 8.0%.

The difference between the IFRS 16 lease liability recognised at 1 January 2019, discounted at the Group's weighted-average incremental borrowing rate, versus those leases disclosed at 31 December 2018 under IAS 17 are driven by: identified operating leases at 31 December 2018 recognised as lease liability on transition; exempt leases (low-value and short-term); and extension options reasonably certain to be extended that were not included in the previously disclosed lease commitment.

The Group sub-leases part of Annan House, its Aberdeen office. The Group classifies the sub-lease as an operating lease, because it does not transfer substantially all the risks and rewards incidental to the ownership of the right-of-use asset. On the adoption of IFRS 16, the impact of the surplus lease provision held for Annan House was assessed and an adjustment for $2.6 million was taken through opening reserves and against the previously recognised provision. The Group will continue to assess the recovery of the asset and will take any provision for impairment directly to the right-of-use asset.

On 1 January 2019, the existing Kraken FPSO lease asset was transferred out of oil and gas assets and into right-of-use assets, at a net book value of $690.7 million. There was no change in the accounting policy for this existing lease on transition to IFRS 16.

The Group reassesses the judgements and estimates for leases as disclosed above at each reporting period, and has assessed, for the year ended 31 December 2019, these are not significant risks that could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2. Summary of significant accounting policies continued

The following table shows the adjustment recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are recognised in the opening balance sheet on 1 January 2019.

Group balance sheet (extract)	1 January 2019 As originally presented $'000	Impact of change in accounting policy under IFRS 16 $'000	1 January 2019 Adjusted balance $'000
Non-current assets			
Property, plant and equipment			
Oil and Gas assets	4,331,719	(690,742)	3,640,977
Office furniture, fixtures and fittings	18,194	—	18,194
Right-of-use assets	—	751,269	751,269
Total	**4,349,913**	**60,527**	**4,410,440**
Equity			
Retained earnings	(17,750)	2,344	(15,406)
Non-current liabilities			
Obligations under leases	615,781	60,527	676,308
Current liabilities			
Obligations under leases	93,169	—	93,169
Surplus lease provision	2,344	(2,344)	—
Total	**693,544**	**60,527**	**754,071**

The adoption of IFRS 16 in the year ended 31 December 2019 resulted in an increase in depreciation of $9.0 million and finance costs of $4.7 million. Operating expenses decreased by $8.6 million.

IFRS 9 Financial Instruments

On 1 January 2018, the Group adopted the new accounting standard IFRS 9 Financial Instruments. This resulted in an accounting adjustment to opening reserves of $38.1 million; $22.7 million against the retail bond and $15.4 million against the high yield bond.

At 1 January 2019, upon review of further information and clarification, this adjustment was updated. This resulted in an accounting adjustment taken through opening reserves of $16.6 million and $33.4 million through the amortised value of the bonds (reduction of $18.9 million against the retail bond and $14.5 million against the high yield bond) offset by a charge of $16.6 million against the bond interest accrual. There was no change in effective interest rate. These adjustments have been taken through this year's financial statements. The Directors believe these adjustments are not material to the prior year financial statements and would not have a material influence on the users of the financial statements.

Group balance sheet (extract)	1 January 2019 (Post IFRS 16 adjustment) $'000	Impact of change in accounting policy under IFRS 9 $'000	1 January 2019 Adjusted balance $'000
Non-current liabilities			
Bonds	998,331	(33,407)	964,924
Trade and other payables: Bond accrual	—	16,596	16,596
Current liabilities			
Bonds	—	—	—
Trade and other payables: Bond accrual	16,810	—	16,810
Total	**1,015,141**	**(16,811)**	**998,330**
Equity			
Retained earnings (brought forward after impact of IFRS 16)	(15,406)	16,578	1,172
Profit and loss: Interest and foreign exchange in 2019	—	233	233
Total	**(15,406)**	**16,811**	**1,405**

Standards issued but not yet effective

Standards issued and relevant to the Group, but not yet effective up to the date of issuance of the Group's financial statements, are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group has not adopted any standards, interpretations or amendments early and intends to adopt these standards when they become effective. The Directors do not anticipate that the adoption of these standards will have a material impact on the Group's financial statements in the period of initial application.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

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 intragroup 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 2019, the Group did not have any material interests in joint ventures or in associates.

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 accounts 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 statement of comprehensive income.

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. The judgements, which inform the estimates of oil and gas reserves, 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 26) in calculations based on expected future cash flows from underlying assets. 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 below:

Future oil prices

Future oil prices are a key driver of estimation affecting several areas of the financial statements. Oil and gas price assumptions are reviewed and, where necessary, adjusted on a periodic basis. The estimates take into account existing prices, historical trends and variability and other macroeconomic factors. 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.

2. Summary of significant accounting policies continued

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.

Oil price assumptions based on an internal view of forward curve prices at 31 December 2019 are $63.0/bbl (2020), $65.0/bbl (2021), $67.0/bbl (2022) and $70.0/bbl real thereafter, inflated at 2.0% per annum from 2024 (2018: $60.0/bbl (2019), $65.0/bbl (2020), $65.0/bbl (2021) and $75.0/bbl real thereafter).

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 discounted cash flow models comprising asset–by–asset life of field projections using 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 discounted cash flow models comprising the asset life of field projections using Level 3 inputs (based on the IFRS 13 fair value hierarchy).

Key assumptions and estimates used in the impairment and contingent consideration models are stated in 'Key assumptions used in calculations' below. As the production and related cash flows can be estimated from EnQuest's experience, management believes that the estimated cash flows expected to be generated over the life of each field are the appropriate basis upon which to assess goodwill and individual assets for impairment.

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 present value is calculated using amounts discounted over the useful economic life of the assets. The effect of changes resulting from these items, along with the change in expected timing, work scope and amount of expenditure, to the timing or the amount of the original estimate of the decommissioning provision, could result in a material adjustment of these provisions and is reflected on a prospective basis. Due to the significant estimates and assumptions, the carrying amounts of decommissioning provisions are reviewed on a regular basis.

In estimating decommissioning provisions, the Group applies an annual inflation rate of 2.0% (2018: 2.0%) and an annual discount rate of 2.0% (2018: 2.0%).

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.

Key assumptions used in calculations

The key assumptions required for the calculation of the discounted cash flow models are:
- Oil prices (see above);
- Oil and gas reserves (see above);
- Production profiles based on life of field internal 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;
- Discount rates driven by the Group's post–tax weighted average cost of capital; and
- Currency exchange rates based on management's estimate of future prices.

The discount rate reflects management's estimate of the Group's weighted average cost of capital ('WACC'). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest–bearing borrowings. Segment risk is incorporated by applying a beta factor based on publicly available market data. The post–tax discount rate applied to the Group's post–tax cash flow projections was 10.0% (2018: 10.0%). Management considers this to be the best estimate of a market participant's discount rate.

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 UK ('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 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):						
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 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**

Year ended 31 December 2018 $'000	North Sea	Malaysia	All other segments	Total segments	Adjustments and eliminations(i)	Consolidated
Revenue:						
Revenue from contracts with customers	1,140,116	144,483	—	1,284,599	—	1,284,599
Other income	9,046	—	395	9,441	4,397	13,838
Total revenue	1,149,162	144,483	395	1,294,040	4,397	1,298,437
Income/(expenses):						
Depreciation and depletion	(411,624)	(30,767)	—	(442,391)	—	(442,391)
Net impairment (charge)/reversal to oil and gas assets	(125,009)	(1,037)	—	(126,046)	—	(126,046)
Impairment reversal of investments	(121)	—	—	(121)	—	(121)
Exploration write offs and impairments	(1,407)	—	—	(1,407)	—	(1,407)
Segment profit/(loss)(ii)	276,365	38,442	5,839	320,646	6,092	326,738
Other disclosures:						
Capital expenditure(iii)	167,070	15,806	—	182,876	—	182,876

(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 2019 $'000	Year ended 31 December 2018 $'000
Segment profit/(loss)	**(425,064)**	320,646
Finance income	**2,416**	3,389
Finance expense	**(263,761)**	(236,142)
Gain/(loss) on oil and foreign exchange derivatives	**(42,704)**	6,092
Profit/(loss) before tax	**(729,113)**	93,985

Revenue from three 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 $307.1 million, $266.1 million and $211.0 million per each single customer (2018: two customers; total of $580.5 million arising in the North Sea operating segment).

All of the Group's segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) are located in the United Kingdom except for $122.1 million located in Malaysia (2018: $111.7 million).

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.

The items that the Group separately presents as exceptional on the face of the statement of comprehensive income 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. Option premiums received or paid for commodity derivatives are recognised in remeasurements and amortised over the period of the option into Business performance revenue;
- Impairments on assets are remeasurements and are deemed to be exceptional in nature. Other non–routine write–offs/write–downs, where deemed material;
- 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 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)

Year ended 31 December 2018 $'000	Fair value remeasurement(i)	Impairments and write offs(ii)	Other(iii)	Total
Revenue and other operating income	97,432	—	—	97,432
Cost of sales	2,310	(592)	—	1,718
Net impairment (charge)/reversal on oil and gas assets	—	(126,046)	—	(126,046)
Other income	—	—	78,316	78,316
Other expenses	(9,590)	(1,528)	(3,597)	(14,715)
Finance costs	—	—	(28)	(28)
	90,152	(128,166)	74,691	36,677
Tax on items above	(36,962)	48,161	1,207	12,406
	53,190	(80,005)	75,898	49,083

(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 (including option premiums) out of 'Remeasurements and exceptional items' and into Business performance profit or loss of $65.8 million. Other expenses relate to the fair value remeasurement of contingent consideration relating to the acquisition of Magnus and associated infrastructure of $15.5 million (note 22) (2018: $9.7 million)

(ii) Impairments and write offs include an impairment of tangible oil and gas assets totalling $637.5 million (note 10) (2018: impairment of $126.0 million), impairment of goodwill of $149.6 million (note 11) and impairment of intangible oil and gas assets totalling $25.4 million (note 12) (2018: $0.4 million)

(iii) Other expenses mainly relate to the provision for settlement of the historical KUFPEC claim of $15.6 million (2018: Net other income includes $74.3 million in relation to the step acquisition uplift of the original 25% equity acquired in 2017 and $1.3 million loss in relation to the revaluation of the option to purchase the Magnus oil field and other interests). Other finance costs mainly relate to the unwinding of contingent consideration from the acquisition of Magnus and associated infrastructure of $57.2 million

5. Revenue and expenses

(a) Revenue and other revenue

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 to 90 days 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 revenue

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 manages the risk of change in underlying market prices through the use of commodity derivative contracts, which are financial instruments designated at fair value through profit or loss (see note 15).

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Revenue from contracts with customers:		
Revenue from crude oil sales	**1,548,177**	1,237,600
Revenue from gas and condensate sales	**120,242**	43,063
Tariff revenue	**7,673**	3,936
Total revenue from contracts with customers	**1,676,092**	1,284,599
Rental income	**7,082**	7,205
Realised (losses)/gains on oil derivative contracts (see note 19)	**24,756**	(93,035)
Other operating revenue	**3,904**	2,236
Business performance revenue	**1,711,834**	1,201,005
Unrealised (losses)/gains on oil derivative contracts[(i)] (see note 19)	**(65,375)**	97,432
Total revenue and other operating income	**1,646,459**	1,298,437

(i) 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 2019 $'000		Year ended 31 December 2018 $'000	
	North Sea	Malaysia	North Sea	Malaysia
Revenue from contracts with customers:				
Revenue from crude oil sales	**1,405,956**	**142,221**	1,096,581	141,019
Revenue from gas and condensate sales	**116,714**	**3,528**	39,599	3,464
Tariff revenue	**7,673**	**—**	3,936	—
Total revenue from contracts with customers	**1,530,343**	**145,749**	1,140,116	144,483

5. Revenue and expenses continued

Contract balances

The following table provides information about receivables from contracts with customers. There are no contract assets or contract liabilities.

	2019 $'000	2018 $'000
Trade receivables (see note 16)	**117,149**	69,857

(b) Cost of sales

Accounting policy

Production imbalances, movements in under/over–lift and movements in inventory are included in cost of sales. The under or over–lifted positions of hydrocarbons arising from production and lifting imbalances are valued at the lower of cost or net realisable value ('NRV') at the balance sheet date. 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 2019 $'000	Year ended 31 December 2018 $'000
Production costs	**441,624**	396,880
Tariff and transportation expenses	**74,782**	68,446
Realised loss/(gain) on derivative contracts related to operating costs (see note 19)	**1,707**	615
Change in lifting position	**96,886**	(14,332)
Crude oil inventory movement	**5,967**	(10,761)
Depletion of oil and gas assets (see note 10)	**525,145**	437,104
Other cost of operations	**97,459**	48,068
Business performance cost of sales	**1,243,570**	926,020
Unrealised (gains)/losses on derivative contracts related to operating costs[(i)] (see note 19)	**378**	(2,310)
Other expenses	**–**	592
Total cost of sales	**1,243,948**	924,302

(i) 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 2019 $'000	Year ended 31 December 2018 $'000
Staff costs (see note 5(f))	**90,764**	91,113
Depreciation (see note 10)	**8,207**	5,287
Other general and administration costs	**23,094**	32,764
Recharge of costs to operations and joint venture partners	**(114,404)**	(125,146)
Total general and administration expenses	**7,661**	4,018

(d) Other income

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Net foreign exchange gains	**–**	21,911
Other income	**3,446**	517
Business performance other income	**3,446**	22,428
Excess of fair value over consideration: Purchase option (see note 30)	**–**	(1,329)
Fair value gain on step acquisition (see note 30)	**–**	74,345
Contingent consideration release	**–**	5,300
Total other income	**3,446**	100,744

(e) Other expenses

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Net foreign exchange losses	**16,427**	—
Other	**5,454**	3,362
Business performance other expenses	**21,881**	3,362
Fair value changes in contingent consideration (see note 22)	**15,520**	9,590
Settlement provision (see note 23)	**15,630**	—
Write down of receivable	**415**	3,010
Exploration and evaluation expenses: Written off and impaired	**150**	1,407
Other expenses	**20**	708
Total other expenses	**53,616**	18,077

(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 statement of comprehensive income 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 2019 $'000	Year ended 31 December 2018 $'000
Wages and salaries	**122,068**	104,781
Social security costs	**12,472**	10,278
Defined contribution pension costs	**12,491**	11,764
Expense of share-based payments (see note 21)	**5,888**	4,645
Other staff costs	**5,563**	4,731
Total employee costs	**158,482**	136,199
Contractor costs	**16,565**	16,724
Total staff costs	**175,047**	152,923
General and administration staff costs (see note 5(c))	**90,764**	91,113
Non general and administration costs	**84,283**	61,810
Total staff costs	**175,047**	152,923

The average number of persons employed by the Group during the year was 958, with 467 in the general and administration staff costs and 491 directly attributable to assets (2018: 839, 448 in general and administration and 391 directly attributable to assets).

(g) Auditor's remuneration

The following amounts were payable by the Group to its auditor, Ernst & Young LLP, during the year:

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**682**	721
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**176**	108
Audit related assurance services (interim review)	**136**	134
Tax advisory services	**12**	5
Corporate finance services(i)	**—**	368
	324	615
Total auditor's remuneration	**1,006**	1,336

(i) Relates to reporting accountant's report on the unaudited pro forma financial information in the Company's combined prospectus and circular for the rights issue

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 2019 $'000	Year ended 31 December 2018 $'000
Finance costs:		
Loan interest payable	**67,749**	93,413
Bond interest payable	**62,694**	64,243
Unwinding of discount on decommissioning provisions (see note 23)	**13,410**	12,617
Unwinding of discount on other provisions (see note 23)	**671**	917
Unwinding of discount on financial liabilities (see note 19(f))	**–**	72
Fair value (gain)/loss on financial instruments at FVPL (see note 19(b))	**–**	353
Finance charges payable under leases	**55,686**	55,837
Amortisation of finance fees on loans and bonds	**5,727**	8,525
Other financial expenses	**2,055**	1,666
	207,992	237,643
Less: amounts capitalised to the cost of qualifying assets	**(1,396)**	(1,529)
Business performance finance expenses	**206,596**	236,114
Unwinding of discounts on contingent consideration (see note 22)	**57,165**	28
Total finance costs	**263,761**	236,142
Finance income:		
Bank interest receivable	**1,511**	1,821
Unwinding of discount on financial asset (see note 19(f))	**905**	1,517
Other financial income	**–**	51
Total finance income	**2,416**	3,389

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 allowance 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 2019 $'000	Year ended 31 December 2018 $'000
Current income tax		
Current income tax charge	354	17,764
Adjustments in respect of current income tax of previous years	(745)	—
Current overseas income tax		
Current income tax charge	20,894	16,048
Adjustments in respect of current income tax of previous years	(4,102)	420
Total current income tax	16,401	34,232
Deferred income tax		
Relating to origination and reversal of temporary differences	(277,198)	(61,879)
Adjustments in respect of changes in tax rates	—	(4,404)
Adjustments in respect of deferred income tax of previous years	(21,309)	(2,304)
Deferred overseas income tax		
Relating to origination and reversal of temporary differences	(953)	612
Adjustments in respect of deferred income tax of previous years	3,247	450
Total deferred income tax	(296,213)	(67,525)
Income tax (credit)/expense reported in profit or loss	(279,812)	(33,293)

(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 2019 $'000	Year ended 31 December 2018 $'000
Profit/(loss) before tax	(729,113)	93,985
Statutory rate of corporation tax in the UK of 40% (2018: 40%)	(291,645)	37,594
Supplementary corporation tax non–deductible expenditure	18,593	20,284
Non–deductible expenditure/income[(i)]	89,746	(21,689)
Petroleum Revenue Tax (net of income tax benefit)	—	—
North Sea tax reliefs	(84,273)	(64,228)
Tax in respect of non ring–fence trade	4,940	691
Tax losses not recognised	6,329	1,509
Deferred tax rate changes	—	(4,404)
Adjustments in respect of prior years	(22,909)	(1,434)
Overseas tax rate differences	(1,064)	(673)
Share–based payments	2,013	899
Other differences	(1,542)	(1,842)
At the effective income tax rate of 38% (2018: 35%)	(279,812)	(33,293)

(i) The 2019 charge (2018: credit) is mainly due to the non–taxable expense (2018: income) in relation to the goodwill and non–taxable fair value movements on the acquisition of the 75% interest in the Magnus oil field; this is netted against the non–tax deductible depreciation on fixed assets

7. Income tax continued

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		(Credit)/charge for the year recognised in profit or loss	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Deferred tax liability				
Accelerated capital allowances	**1,057,805**	1,400,956	**(343,152)**	93,196
	1,057,805	1,400,956		
Deferred tax asset				
Losses	**(1,102,534)**	(1,212,988)	**110,455**	15,046
Decommissioning liability	**(284,057)**	(267,954)	**(16,103)**	(13,946)
Other temporary differences	**(226,333)**	(178,920)	**(47,413)**	(161,821)
	(1,612,924)	(1,659,862)		
Deferred tax expense			**(296,213)**	(67,525)
Net deferred tax (assets)/liabilities	**(555,119)**	(258,906)		
Reflected in the balance sheet as follows:				
Deferred tax assets	**(576,038)**	(286,721)		
Deferred tax liabilities	**20,919**	27,815		
Net deferred tax (assets)/liabilities	**(555,119)**	(258,906)		

Reconciliation of net deferred tax assets/(liabilities)

	2019 $'000	2018 $'000
At 1 January	**258,906**	335,578
Tax income/(expense) during the period recognised in profit or loss	**296,213**	67,525
Deferred taxes acquired	**—**	(144,197)
At 31 December	**555,119**	258,906

(d) Tax losses

The Group's deferred tax assets at 31 December 2019 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. All of the Group's ring-fence deferred tax assets are recognised as there are sufficient 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 no change in the full recognition of deferred taxes, with headroom still available.

The Group has unused UK mainstream corporation tax losses of $297.8 million (2018: $287.5 million) 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 (see note 2). The benefit of this deduction is taken over ten years with a deduction of $3.8 million being taken in the current period with the remaining benefit of $30.5 million remaining unrecognised.

The Group has unused Malaysian income tax losses of $12.2 million (2018: $9.4 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, Finance Act 2009 exempted foreign dividends from the scope of UK corporation tax where certain conditions are satisfied.

(e) Changes in legislation

Finance Act 2016 enacted a change in the mainstream corporation tax rate to 17% with effect from 1 April 2020. In the Budget statement on 11 March 2020 it was announced that the corporation tax rate will remain at 19% from 1 April 2020. As all UK mainstream corporation tax losses are not recognised there is no impact on the current year resulting from this change.

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.

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	
	2019 $'000	2018 $'000	**2019 million**	2018[ii] million	**2019 $**	2018[ii] $
Basic	**(449,301)**	127,278	**1,640.1**	1,381.8	**(0.274)**	0.092
Dilutive potential of Ordinary shares granted under share–based incentive schemes	**–**	–	**14.7**	37.8	**–**	(0.002)
Diluted	**(449,301)**	127,278	**1,654.8**	1,419.6	**(0.274)**	0.090
Basic (excluding exceptional items)	**214,340**	78,195	**1,640.1**	1,381.8	**0.131**	0.057
Diluted (excluding exceptional items)	**214,340**	78,195	**1,654.8**	1,419.6	**0.130**	0.055

(ii) Restated to reflect the recalculated weighted average number of Ordinary shares as a result of the 2018 rights issue

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2019 (2018: none). At 31 December 2019, there are no proposed dividends (2018: 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 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	Period of lease

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.

10. Property, plant and equipment continued

Impairment of tangible and intangible assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its oil and gas assets at field level basis to assess whether there is an indication that those assets may be impaired. 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. See 'Key estimates used in calculations'. The cash flows have been modelled on a post-tax basis at the Group's post-tax discount rate. 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 statement of comprehensive income.

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 statement of comprehensive income.

	Oil and gas assets $'000	Office furniture, fixtures and fittings $'000	Right-of-use assets (note 24) $'000	Total $'000
Cost:				
At 1 January 2018	8,070,694	57,716	—	8,128,410
Additions	178,627	2,856	—	181,483
Acquired (note 30)	745,350	—	—	745,350
Acquired: Change in fair value on step acquisition (see note 30)	123,909	—	—	123,909
Change in decommissioning provision (see notes 12 and 23)	30,194	—	—	30,194
Change in cost recovery provision (see note 23)	(7,947)	—	—	(7,947)
Change in financial carry liability (see note 19)	(1,066)	—	—	(1,066)
Change in estimate	(2,195)	—	—	(2,195)
At 31 December 2018 (as previously reported)	**9,137,566**	**60,572**	**—**	**9,198,138**
IFRS 16 recognition and reclassification[(i)] (see note 2)	**(771,975)**	**—**	**832,502**	**60,527**
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 (see notes 12 and 23)	**40,097**	**—**	**—**	**40,097**
Change in cost recovery provision (see note 23)	**(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 31 December 2019	**8,547,769**	**62,453**	**857,089**	**9,467,311**
Accumulated depletion and impairment:				
At 1 January 2018	4,242,697	37,091	—	4,279,788
Charge for the year	437,104	5,287	—	442,391
Impairment charge for the year	126,046	—	—	126,046
At 31 December 2018 (as previously reported)	**4,805,847**	**42,378**	**—**	**4,848,225**
IFRS 16 recognition and reclassification[(i)] (see note 2)	**(81,233)**	**—**	**81,233**	**—**
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 31 December 2019	**5,797,924**	**46,568**	**171,890**	**6,016,382**
Net carrying amount:				
At 31 December 2019	**2,749,845**	**15,885**	**685,199**	**3,450,929**
At 31 December 2018	4,331,719	18,194	—	4,349,913
At 1 January 2018	3,827,997	20,625	—	3,848,622

(i) Following the adoption of IFRS 16 Leases, the Kraken FPSO lease asset has been reclassified to right-of-use assets

The net book value at 31 December 2019 includes $70.7 million (2018: $95.4 million) of pre-development assets and development assets under construction.

The amount of borrowing costs capitalised during the year ended 31 December 2019 was $1.4 million and relates to the Dunlin bypass project (2018: $1.5 million relating to the Dunlin bypass project). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 8.4% (2018: 7.7%).

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 2019 $'000	Year ended 31 December 2018 $'000	**31 December 2019 $'000**	31 December 2018 $'000
North Sea	**(637,500)**	(125,009)	**46,462**	158,890
Malaysia	**–**	(1,037)	**–**	41,488
Net impairment reversal/(charge)	**(637,500)**	(126,046)		

(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

The impairment in the year related to North Sea assets. The impairments are attributable primarily to changes to the long-term oil price from $75.0/bbl to $70.0/bbl, revision to production profiles (see reserves and resources on page 26) in the Heather/Broom, Thistle/Deveron and the Dons fields and the anticipated cessation of production at Alma/Galia. Both the Heather/Broom and Thistle/Deveron fields were fully impaired as a result of the impairment assessment conditions as at 31 December 2019.

The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. 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 increase the net impairment by approximately $388.0 million, with the additional impairment attributable to the fields in the North Sea.

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 that such carrying value may be impaired.

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. Goodwill, which has been acquired through business combinations, has been allocated to a single CGU, the UK Continental Shelf ('UKCS'), and this is therefore the lowest level at which goodwill is reviewed. The UKCS is a combination of oil and gas assets, as detailed within property, plant and equipment (note 10). Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates.

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 the Group's post-tax discount rate. Where the recoverable amount of the CGU is less than the carrying amount of the CGU and related goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

11. Goodwill continued

A summary of goodwill is presented below:

	2019 $'000	2018 $'000
Cost and net carrying amount		
At 1 January	**283,950**	189,317
Acquisition (see note 30)	**—**	94,633
Impairment	**(149,550)**	—
At 31 December	**134,400**	283,950

On 1 December 2018, the Group acquired the remaining 75% interest in the Magnus oil field and associated interests. Goodwill of $94.6 million was recognised, representing the future economic benefits that EnQuest's expertise is expected to realise from the assets (see note 30). The historical goodwill balance arose from the acquisition of Stratic and PEDL in 2010 and the Greater Kittiwake Area asset in 2014.

Impairment testing of goodwill

An impairment charge of $149.6 million was taken in 2019 (2018: $nil). The impairment is attributable to changes in the underlying North Sea assets, as disclosed in 'impairment testing of oil and gas assets' (note 10). The goodwill value stated is the recoverable amount.

Sensitivity to changes in assumptions

The Group's recoverable value of assets is highly sensitive, inter alia, to oil price achieved and production volumes. Sensitivities have been run on the oil price assumption with a 5% reduction in oil price fully impairing goodwill.

12. Intangible oil and gas assets

Accounting policy

Exploration and appraisal assets

The Group adopts the successful efforts method of accounting for exploration and evaluation costs. 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 statement of comprehensive income. When exploration licences are relinquished without further development, any previous impairment loss is reversed and the carrying costs are written off through the statement of comprehensive income. 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 statement of comprehensive income.

During the year ended 31 December 2019, the Group impaired for the write-off of historical exploration and appraisal expenditures totalling $25.4 million (2018: $0.4 million). During the year ended 31 December 2018, the Group relinquished licences previously impaired resulting in write-off of $63.5 million.

	Cost $'000	Accumulated impairment $'000	Net carrying amount $'000
At 1 January 2018	228,026	(175,923)	52,103
Additions	1,393	—	1,393
Write-off of relinquished licences previously impaired	(63,547)	63,547	—
Unsuccessful exploration expenditure written off	—	(1,009)	(1,009)
Change in decommissioning provision (see notes 10 and 23)	(286)	—	(286)
Impairment charge for the year	—	(398)	(398)
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 notes 10 and 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**

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.

	2019 $'000	2018 $'000
Hydrocarbon inventories	**17,216**	23,183
Well supplies	**61,428**	77,349
	78,644	100,532

During 2019, inventories of $14.6 million (2018: $5.8 million) were recognised within cost of sales in the statement of comprehensive income.

14. Cash and cash equivalents

	2019 $'000	2018 $'000
Available cash		
Cash at bank	**137,365**	126,625
Short–term deposits	**6,849**	6,640
Total available cash	**144,214**	133,265
Ring–fenced cash		
Joint venture accounts	**32,365**	45,095
Operational accounts	**41,620**	58,840
Total ring–fenced cash	**73,985**	103,935
Total cash at bank and in hand	**218,199**	237,200
Restricted cash — Cash subject to currency controls or other legal restrictions		
Cash held in escrow	**1,611**	2,764
Cash collateral	**646**	640
Total restricted cash — Cash subject to currency controls or other legal restrictions	**2,257**	3,404
Total cash and cash equivalents	**220,456**	240,604

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 2019, $6.8 million (2018: $6.6 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 assets, 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:

- Sculptor Capital (previously Oz Management) working capital for use only for the activities of the ring–fenced 15% interest in the Kraken oil field (see note 18);
- SVT working capital for use only with the activities of SVT (see note 18);
- Tanjong Baram cash held in a Malaysian bank account which can only be used to pay cash calls for the Tanjong Baram asset and amounts related to the project finance loan (see note 18);
- 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).

Restricted cash

Included within the cash balance at 31 December 2019 is restricted cash of $2.3 million (2018: $3.4 million). Of this, $1.6 million relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources (2018: $2.8 million) and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

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 consolidated statement of financial position 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 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 statement of profit or loss.

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.

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. 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 statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. 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 and amortised over the period of the option into Business performance revenue.

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 statement of profit or loss.

Fair value measurement

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

31 December 2019	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	**288**	**–**	**288**	**–**
Foreign currency derivative contracts	**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	**11,073**	**–**	**11,073**	**–**
Other financial liabilities measured at FVPL				
Contingent consideration	**657,261**	**–**	**–**	**657,261**
Liabilities for which fair values are disclosed				
Interest–bearing loans and borrowings	**661,638**	**–**	**–**	**661,638**
Obligations under leases	**716,166**	**–**	**–**	**716,166**
Retail bond	**195,948**	**195,948**	**–**	**–**
High yield bond	**655,462**	**655,462**	**–**	**–**

31 December 2018	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	54,733	–	54,733	–
Foreign currency derivative contracts	248	–	248	–
Carbon commodity derivative contracts	2,077	–	2,077	–
Other financial assets at FVPL				
Quoted equity shares	31	31	–	–
Liabilities measured at fair value:				
Derivative financial liabilities at FVPL				
Oil commodity derivative contracts	142	–	142	–
Other financial liabilities measured at FVPL				
Contingent consideration	660,436	–	–	660,436
Liabilities for which fair values are disclosed				
Interest–bearing loans and borrowings	1,050,167	–	–	1,050,167
Obligations under leases	708,950	–	–	708,950
Retail bond	156,764	156,764	–	–
High yield bond	534,363	534,363	–	–

15. Financial instruments and fair value measurement continued

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 (2018: no transfers).

For the fair value of financial liabilities that are not measured at fair value (but 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

	2019 $'000	2018 $'000
Current		
Trade receivables	**117,149**	69,857
Joint venture receivables	**119,519**	84,745
Under–lift position	**17,651**	81,173
VAT receivable	**6,887**	—
Other receivables	**3,374**	14,741
	264,580	250,516
Prepayments and accrued income	**14,922**	25,293
	279,502	275,809

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 provisions for impairment with no provision necessary as at 31 December 2019 or 2018.

17. Trade and other payables

	2019 $'000	2018 $'000
Current		
Trade payables	**92,238**	162,686
Accrued expenses	**258,539**	296,758
Over–lift position	**46,201**	12,837
Joint venture creditors	**1,788**	1,701
VAT payable	**—**	23,543
Other payables	**21,089**	4,465
	419,855	501,990
Classified as:		
Current	**419,855**	483,781
Non–current	**—**	18,209
	419,855	501,990

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. The Group has arrangements with various suppliers to defer payment of a proportion of its capital spend. All of these deferred payments fall due in 2020.

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

18. Loans and borrowings

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

	2019			2018		
	Principal $'000	Fees $'000	Total $'000	Principal $'000	Fees $'000	Total $'000
Credit facility	475,097	–	475,097	799,444	–	799,444
Sculptor Capital facility	122,912	(2,625)	120,287	178,524	(3,325)	175,199
Crude oil prepayment	–	–	–	22,222	(111)	22,111
SVT working capital facility	31,899	–	31,899	15,747	–	15,747
Tanjong Baram project financing facility	31,730	–	31,730	31,730	–	31,730
Trade creditor loan	–	–	–	2,500	–	2,500
Total loans	661,638	(2,625)	659,013	1,050,167	(3,436)	1,046,731
Due within one year			165,589			311,261
Due after more than one year			493,424			735,470
Total loans			659,013			1,046,731

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 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;
- 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; and
- $12 million waiver fee payable to lenders on 31 March 2018.

At 31 December 2019, the carrying amount of the credit facility on the balance sheet was $477.4 million, comprising the loan principal drawn down of $460.0 million, $15.8 million of interest capitalised to the PIK amount and $1.6 accrued interest (note 17) (2018: carrying amount $802.7 million, principal drawn down $785.0 million, PIK $14.4 million and accrued interest $3.3 million).

At 31 December 2019, after allowing for letter of credit utilisation of $6.8 million, $68.2 million remained available for drawdown under the credit facility (2018: $6.6 million and $68.4 million, respectively).

Sculptor Capital facility (previously Oz Management facility)

On 24 September 2018, the Group entered into a $175.0 million financing facility with Sculptor Capital LP. 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.

Crude oil prepayment transaction

On 25 October 2017, the Group entered into an $80.0 million crude oil prepayment with Mercuria Energy Trading SA. Repayment was made in equal monthly instalments over 18 months, through the delivery of an aggregate of approximately 1.8 MMbbls of oil. EnQuest received the average Brent price over each month subject to a floor of $45/bbl and a cap of approximately $64/bbl. Interest on the prepayment was payable at one-month USD LIBOR plus a margin of 7.0%. The prepayment transaction was undertaken on an unsecured basis. The prepayment completed during 2019 with no liability outstanding as at 31 December 2019.

SVT working capital facility

On 1 December 2017, EnQuest NNS Limited entered into a £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 other interests. The facility is able to be drawn down against, in instalments, and accrues interest at 1.0% per annum plus GBP LIBOR. The facility is repayable three years from the initial availability of the facility.

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. The facility is repayable within five years from the drawdown date on 28 February 2018 or following termination of the Risk Services Contract, and is secured against the Tanjong Baram asset. Interest is payable at USD LIBOR plus a margin of 8.0% per annum.

18. Loans and borrowings continued

Trade creditor loan

In October 2016, the Group borrowed $40.0 million under a loan facility with a trade creditor to fund the settlement of deferred amounts for the Kraken project. The loan was repaid in full in 2019.

Bonds

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

	2019			2018		
	Principal $'000	**Fees $'000**	**Total $'000**	Principal $'000	Fees $'000	Total $'000
High yield bond	**746,056**	**(4,483)**	**741,573**	760,553	(6,475)	754,078
Retail bond	**225,747**	**(1,089)**	**224,658**	237,778	(1,574)	236,204
Total bonds due after more than one year	**971,803**	**(5,572)**	**966,231**	998,331	(8,049)	990,282

High yield bond

In April 2014, the Group issued a $650 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 will only be 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. The maturity of the new high yield notes was extended to 15 April 2022 and the Company has the option to extend the maturity date of the new high yield notes to 15 April 2023. Further, the maturity date of the new high yield notes will be automatically extended to 15 October 2023 if the credit facility is not repaid or refinanced in full prior to 15 October 2020.

At the end of 2016, the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the bonds were amortised over the new life of the bonds, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for $15.4 million was taken through opening reserves and through the amortised value of the bond. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. At 1 January 2019, upon review of further information and clarification, this adjustment was updated. This resulted in an accounting adjustment of $14.5 million against the high yield bond, offset by adjustments through opening reserves and the bond interest accrual. There was no change in effective interest rate (see note 2).

The total carrying value of the bond as at 31 December 2019 is $754.8 million. This includes bond principal of $746.1 million, bond interest accrual of $11.0 million (note 17) and liability for the IFRS 9 Financial Instruments loss on modification of $2.2 million less unamortised fees of $4.5 million (2018: carrying value $765.1 million, bond principal $746.1 million, bond interest accrual $11.0 million, IFRS 9 modification liability $14.5 million less unamortised fees of $6.5 million). The fair value of the high yield bond is disclosed in note 15.

Retail bond

In 2013, the Group issued a £155 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 will only be 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'). The maturity of the new retail notes was extended to 15 April 2022 and the Company has the option to extend the maturity date to 15 April 2023. Further, the maturity date of the new retail notes will be automatically extended to 15 October 2023 if the credit facility is not repaid or refinanced in full prior to 15 October 2020.

At the end of 2016, the modification was not considered to be significant under IAS 39. As a result, the change in contractual cash flows on the bonds were amortised over the new life of the bonds, rather than taken straight to profit or loss. Under IFRS 9, the refinancing is a modification of the debt in which the difference in contractual cash flows should be taken straight to profit or loss. The cash flows were reassessed and, on 1 January 2018 on the adoption of IFRS 9, an adjustment for $22.7 million was taken through opening reserves and through the amortised value of the bond. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. At 1 January 2019, upon review of further information and clarification, this adjustment was updated. This resulted in an accounting adjustment of $18.9 million against the retail bond, offset by adjustments through opening reserves and the bond interest accrual. There was no change in effective interest rate (see note 2).

The total carrying value of the bond as at 31 December 2019 is $241.1 million. This includes bond principal of $225.7 million, bond interest accrual of $6.0 million (note 17) and liability for the IFRS 9 Financial Instruments loss on modification of $10.5 million less unamortised fees of $1.1 million (2018: carrying value $242.0 million, bond principal $218.9 million, bond interest accrual $5.8 million, IFRS 9 modification liability $18.9 million less unamortised fees of $1.6 million). 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

	2019		2018	
	Assets $'000	Liabilities $'000	Assets $'000	Liabilities $'000
Fair value through profit or loss:				
Derivative commodity contracts	288	11,073	54,733	142
Derivative foreign exchange contracts	1,932	–	248	–
Derivative carbon contracts	–	–	2,077	–
Amortised cost:				
Other receivables	6,863	–	9,517	–
Total current	9,083	11,073	66,575	142
Fair value through profit or loss:				
Quoted equity shares	11	–	31	–
Amortised cost:				
Other receivables	–	–	5,958	–
Total non-current	11	–	5,989	–

(b) Income statement impact

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

	Revenue and other operating income		Cost of sales		Finance costs	
Year ended 31 December 2019	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000	Realised $'000	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)	–	–

	Revenue and other operating income		Cost of sales		Finance costs	
Year ended 31 December 2018	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000	Realised $'000	Unrealised $'000
Commodity options	(29,309)	63,022	–	–	–	–
Commodity swaps	(47,740)	29,016	–	–	–	–
Commodity futures	(7,951)	84	–	–	–	–
Commodity collar on prepayment transaction	(8,035)	5,310	–	–	–	–
Foreign exchange contracts	–	–	(615)	248	–	–
Carbon forwards	–	–	–	2,062	–	–
Interest rate swap	–	–	–	–	(353)	–
	(93,035)	97,432	(615)	2,310	(353)	–

(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.

19. Other financial assets and financial liabilities continued

For the year ended 31 December 2019, losses totalling $40.6 million (2018: gains of $4.4 million) were recognised in respect of commodity contracts designated as FVPL. This included gains totalling $24.8 million (2018: losses of $93.0 million) realised on contracts that matured during the year, and mark–to–market unrealised losses totalling $65.4 million (2018: gains of $97.4 million). Of the realised amounts recognised during the year, a gain of $4.9 million (2018: loss of $17.2 million) was realised in Business performance revenue in respect of the amortisation of premium income received on sale of these options. The premiums received are amortised into Business performance revenue over the life of the option.

In October 2017, the Group entered into an 18–month collar structure for $80.0 million. The collar included 18 separate call options and 18 separate put options, subject to a floor of $45/bbl and a cap of approximately $64/bbl. For the year ended 31 December 2019, a loss of $1.1 million was recognised in Business performance revenue (2018: loss of $8.0 million). The collar is now complete.

The mark–to–market value of the Group's open contracts as at 31 December 2019 was a liability of $10.8 million (2018: asset of $54.7 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 2019, losses totalling $1.0 million (2018: losses of $0.4 million) were recognised in the income statement. This included realised loss totalling $2.7 million (2018: losses of $0.6 million) on contracts that matured in the year.

The mark–to–market value of the Group's open contracts as at 31 December 2019 was an asset of $1.9 million (2018: asset of $0.2 million).

(e) Carbon contracts

During the year the Group entered forward carbon contracts to manage its exposure to compliance with European emissions regulations. For the year ended 31 December 2018, the contracts were designated as at FVPL and gains and losses on these contracts are recognised as a component of cost of sales. The mark–to–market value of the Group's open contracts as at 31 December 2018 was $2.1 million.

During 2019, realised gains of $1.0 million (2018: $nil) and unrealised losses of $2.1 million (2018: gains $2.1 million) were recognised in respect of carbon commodity contracts designated as FVPL.

During 2019, the contracts entered were, and continue to be, held for the purpose of the receipt of non–financial items in accordance with the Group's expected purchase, sale or usage requirements, therefore are recognised as purchases within cost of sales under the 'own–use' exemption. These are therefore recognised directly within cost of sales.

(f) Other receivables and liabilities

	Other receivables $'000	Other liabilities $'000
At 1 January 2018	70,044	26,332
Exercised on acquisition	(20,970)	–
Change in fair value	(172)	(7,283)
Utilised during the year	(66,194)	(14,907)
Unwinding of discount	(1,081)	72
Foreign exchange	980	–
Classification update	32,899	(4,214)
At 31 December 2018	**15,506**	**–**
Additions	**–**	**–**
Change in fair value	**(20)**	**–**
Utilised during the year	**(9,517)**	**–**
Unwinding of discount	**905**	**–**
At 31 December 2019	**6,874**	**–**
Current	**6,863**	**–**
Non–current	**11**	**–**
	6,874	**–**

Other receivables

Comprised of:	2019 $'000	2018 $'000
BUMI receivable	**6,863**	15,475
Other	**11**	31
Total	**6,874**	15,506

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. Included within other receivables at 31 December 2019 is an amount of $6.9 million representing the discounted value of EnQuest's share of these repayments (2018: $15.5 million). A total of $9.5 million was collected during the period.

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.

Retained earnings

Retained earnings contain the accumulated results attributable to the shareholders of the parent company.

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 statement of comprehensive income 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 2019	1,694,406,148	118,182	227,149	345,331
Issuance of equity shares	1,395,807	89	—	89
At 31 December 2019	**1,695,801,955**	**118,271**	**227,149**	**345,420**

At 31 December 2019, there were 43,232,936 shares held by the Employee Benefit Trust (2018: 73,180,394). 1,012,658 shares were issued across 2019 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.

On 22 October 2018, the Company completed a rights issue, pursuant to which 508,321,844 new Ordinary shares were issued at a price of £0.21 per share, generating gross aggregate proceeds of $138.9 million. 485,477,620 of the new shares issued resulted from existing shareholders taking up their entitlement under the rights issue to acquire three new Ordinary shares for every seven Ordinary shares previously held. The Employee Benefit Trust acquired 22,126,481 shares pursuant to the rights issue. Following the admission to the market of an additional 508,321,844 Ordinary shares on 22 October 2018, there were 1,694,406,148 Ordinary shares in issue at the end of 2018.

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 statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

21. Share-based payment plans continued

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 statement of comprehensive income.

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

	2019 $'000	2018 $'000
Deferred Bonus Share Plan	**303**	649
Restricted Share Plan	**580**	668
Performance Share Plan	**3,988**	2,126
Sharesave Plan	**858**	801
Executive Director bonus awards	**159**	401
	5,888	4,645

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. The awards were adjusted at the time for the effect of the rights issue in 2018.

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:

	2019	2018
Weighted average fair value per share	**36p**	36p

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

	2019 Number	2018 Number[ii]
Outstanding at 1 January	**2,147,103**	2,631,797
Granted during the year[i]	**—**	1,005,150
Exercised during the year[ii]	**(1,127,850)**	(1,415,219)
Forfeited during the year	**(93,743)**	(74,625)
Outstanding at 31 December	**925,510**	2,147,103
Exercisable at 31 December	**—**	14,014

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the DBSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 316,128 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share awards outstanding as at 31 December 2019 was 0.6 years (2018: 0.9 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:

	2019	2018
Weighted average fair value per share	**31p**	32p

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

	2019 Number	2018 Number[ii]
Outstanding at 1 January	**12,672,753**	12,284,572
Granted during the year[i]	**45,303**	2,366,019
Exercised during the year[ii]	**(7,826,383)**	(884,217)
Forfeited during the year	**(43,374)**	(1,093,621)
Outstanding at 31 December	**4,848,299**	12,672,753
Exercisable at 31 December	**2,822,934**	4,037,914

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the RSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 1,812,650 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share awards outstanding as at 31 December 2019 was 2.6 years (2018: 5.0 years).

Performance Share Plan ('PSP')

Under the PSP, the shares vest subject to performance conditions. The PSP share awards granted during the year 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.

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:

	2019	2018
Weighted average fair value per share	**27p**	32p

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

	2019 Number	2018 Number[ii]
Outstanding at 1 January	**77,898,199**	65,192,493
Granted during the year[i]	**33,000,603**	27,700,837
Exercised during the year[ii]	**(19,644,786)**	(951,548)
Forfeited during the year	**(21,616,318)**	(14,043,583)
Outstanding at 31 December	**69,637,698**	77,898,199
Exercisable at 31 December	**3,852,953**	3,540,460

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the PSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 11,318,326 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share awards outstanding as at 31 December 2019 was 6.3 years (2018: 4.0 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.

21. Share-based payment plans continued

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:

	2019	2018
Weighted average fair value per share	**22p**	26p

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

	2019 Number	2018 Number(ii)
Outstanding at 1 January	**35,747,677**	12,834,269
Granted during the year(i)	**39,101,971**	26,069,708
Exercised during the year(ii)	**(6,385,608)**	(1,614,746)
Forfeited during the year	**(25,874,518)**	(1,541,554)
Outstanding at 31 December	**42,589,522**	35,747,677
Exercisable at 31 December	**2,879,900**	—

(i) On 22 October 2018, at its discretion, the Company increased the number of options receivable by participants in the Sharesave Plan by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 5,235,954 additional shares. The exercise price of outstanding options was also reduced by multiplying by a factor 0.8546. The incremental fair value of these adjustments is being expensed over the remaining vesting period of the options to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share options outstanding as at 31 December 2019 was 2.8 years (2018: 2.6 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:

	2019	2018
Weighted average fair value per share	**28p**	39p

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

	2019 Number	2018 Number(ii)
Outstanding at 1 January	**3,159,786**	2,445,722
Granted during the year(i)	**138,483**	714,064
Exercised during the year(ii)	**(1,334,815)**	—
Outstanding at 31 December	**1,963,454**	3,159,786
Exercisable at 31 December	**1,526,678**	1,949,074

(i) On 22 October 2018, at its discretion, the Company increased the number of shares receivable by participants in the PSP by a factor of 1.17 so that the value of their rights under outstanding awards was not adversely affected by the rights issue. This resulted in the grant of 459,112 additional shares. The fair value of these awards is being expensed over the remaining vesting period of the original awards to which they relate

(ii) During the year the disclosure and underlying data was assessed and the reconciliation updated from reflecting vesting shares to exercised shares. This has resulted in updated comparative figures

The weighted average contractual life for the share awards outstanding as at 31 December 2019 was 0.6 years (2018: 0.6 years).

22. Contingent consideration

During 2019, the Group reviewed the contingent consideration and, as a result, have disaggregated the contingent consideration from provisions in light of its underlying uncertainty regarding its timing and amount. This note encompasses all the required information on the liabilities in order to provide users with an enhanced understanding of the liabilities. The contingent consideration has been extracted from the provisions table, including the comparative information, as disclosed below.

	Magnus 25% $'000	Magnus 75% $'000	Magnus decommissioning–linked liability $'000	Total $'000
At 1 January 2018	69,754	—	—	69,754
Acquisitions (see note 30)	—	625,296	—	625,296
Change in fair value	9,723	—	—	9,723
Unwinding of discount	3,042	1,263	—	4,305
Utilisation	(48,642)	—	—	(48,642)
At 31 December 2018	33,877	626,559	—	660,436
Reclassification from provisions (see note 23)	—	—	12,583	12,583
At 1 January 2019	33,877	626,559	12,583	673,019
Change in fair value (see note 5(e))	—	13,500	2,020	15,520
Unwinding of discount (see note 6)	914	54,993	1,258	57,165
Utilisation	(34,791)	(53,652)	—	(88,443)
At 31 December 2019	—	641,400	15,861	657,261
Classified as:				
Current	—	108,840	2,871	111,711
Non–current	—	532,560	12,990	545,550
	—	641,400	15,861	657,261

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') (see note 30) which was part funded through a vendor loan and profit share arrangement with BP. This acquisition followed from the acquisition of initial interests completed in December 2017.

The consideration for the acquisition was $300 million, consisting of $100 million cash contribution, paid from the funds received through the rights issue undertaken in October 2018, and $200 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 fair value of contingent consideration has been determined by calculating the present value of the future expected cash flows using the assumptions detailed in '*Key assumptions used in calculations*' (see note 2). The contingent consideration was fair valued at 31 December 2019, which resulted in an increase in fair value of $13.5 million, reflecting the Group's expectations of continued strong performance at Magnus, and unwinding of discount of $55.0 million was charged to finance costs during the period, both recognised through remeasurements and exceptional items in the consolidated income statement. The contingent profit sharing arrangement cap of $1 billion has been reached in the present value calculations at both year ends. A total of $53.7 million was repaid during 2019. At 31 December 2019, the contingent consideration was $641.4 million (31 December 2018: $626.6 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 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 $97.8 million or an increase of $54.3 million to the contingent consideration, respectively (2018: reduction of $110.0 million and increase of $61.9 million, respectively). The change in value represents a change in timing of cash flows, with the contingent profit sharing arrangement cap of $1 billion reached in both sensitivities.

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 2019, the maturity analysis of the loan is disclosed in Risk management and financial instruments — liquidity risk (note 27).

22. Contingent consideration continued

25% Magnus acquisition contingent consideration

On 1 December 2017, the acquisition of the initial 25% interest in the Magnus and associated interests was funded through a vendor loan from BP (see note 30). The loan was repayable solely out of cash flows, which are in excess of the operating cash flows from the acquired assets, and was secured over the interests in the Transaction assets. The loan accrued interest at a rate of 5.0% per annum on the base consideration. The fair value was estimated by calculating the present value of the future expected cash flows, based on a discount rate of 10.0% and assumed repayment of around three years. During 2018, a change in fair value of $9.7 million was recognised within finance costs. A total of $34.8 million was repaid during 2019 (2018: $48.6 million) with no remaining liability recognised as at 31 December 2019.

Magnus decommissioning–linked contingent consideration

As part of the Magnus and associated interests acquisition, EnQuest agreed to pay additional consideration in relation to the management of the physical decommissioning costs of Magnus. At 31 December 2019, the amount due to BP by reference to 30% of BP's decommissioning costs on Magnus on an after–tax basis was $15.9 million (2018: $12.6 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 statement of comprehensive income. 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 statement of comprehensive income.

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' and 'Key assumptions used in calculations' 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	Cost recovery provision $'000	Surplus lease provision $'000	Other provisions $'000	Total $'000
At 1 January 2018	639,251	23,911	2,886	—	666,048
Additions during the year	—	—	—	41,856	41,856
Changes in estimates	29,908	(7,947)	—	657	22,618
Unwinding of discount	12,617	260	8	—	12,885
Utilisation	(10,036)	(5,261)	(409)	—	(15,706)
Classification update	—	(5,068)	—	4,214	(854)
Foreign exchange	—	—	(141)	—	(141)
At 31 December 2018	**671,740**	**5,895**	**2,344**	**46,727**	**726,706**
Adjustment on adoption of IFRS 16 (note 2)	**—**	**—**	**(2,344)**	**—**	**(2,344)**
Reclassification to contingent consideration (note 22)	**—**	**—**	**—**	**(12,583)**	**(12,583)**
At 1 January 2019	**671,740**	**5,895**	**—**	**34,144**	**711,779**
Additions during the year	**—**	**—**	**—**	**22,500**	**22,500**
Changes in estimates	**37,879**	**(5,895)**	**—**	**5,295**	**37,279**
Unwinding of discount	**13,410**	**—**	**—**	**671**	**14,081**
Utilisation	**(11,131)**	**—**	**—**	**(11,837)**	**(22,968)**
Foreign exchange	**—**	**—**	**—**	**288**	**288**
At 31 December 2019	**711,898**	**—**	**—**	**51,061**	**762,959**
Classified as:					
Current	**45,519**	**—**	**—**	**11,250**	**56,769**
Non–current	**666,379**	**—**	**—**	**39,811**	**706,190**
	711,898	**—**	**—**	**51,061**	**762,959**

Decommissioning provision

The Group's total provision represents the present value of decommissioning costs which are expected to be incurred up to 2042, assuming no further development of the Group's assets. At 31 December 2019, an estimated $155.6 million is expected to be utilised between one and five years, $339.8 million within six to ten years, 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 $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 2019 were renewed for 12 months, subject to ongoing compliance with the terms of the Group's borrowings. At 31 December 2019, the Group held surety bonds totalling $131.6 million (2018: $123.2 million).

Cost recovery provision

As part of the KUFPEC farm-in agreement, a cost recovery protection mechanism was agreed with KUFPEC to enable KUFPEC to recoup its investment to the date of first production. If, on 1 January 2017, KUFPEC's costs to first production had not been recovered or deemed to have been recovered, EnQuest would pay KUFPEC an additional 20% share of net revenue. This additional revenue is to be paid until the capital costs to first production have been recovered. As at 31 December 2019, there was no further cost recovery, as per the agreement, and the provision was released against the corresponding balance in property, plant and equipment.

Surplus lease provision

In June 2015, the Group entered a 20-year lease in respect of the Group's office building in Aberdeen, with part of the building subsequently being sub-let with a rent-free incentive. A provision has been recognised for the unavoidable costs in relation to the sub-let space. On the adoption of IFRS 16, the impact of a surplus or onerous lease is assessed as part of the value of the right-of-use asset, within property, plant and equipment. The provision was assessed on transition and taken through equity (see note 2).

Other provisions

In 2017, EnQuest had the option to receive $50 million from BP in exchange for undertaking the management of the physical decommissioning activities for Thistle and Deveron and making payments by reference to 6.0% of the gross decommissioning costs of Thistle and Deveron fields. The option was exercised in full during 2018 and recognised within provisions. At 31 December 2019, the amount due to BP by reference to 7.5% of BP's decommissioning costs on Thistle and Deveron on an after-tax basis was $39.8 million (2018: $33.6 million). Unwinding of discount of $0.9 million is included within finance income for the year ended 31 December 2019 (2018: $0.7 million).

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 previous years, resulting in the remaining $15.6 million being taken to the statement of comprehensive income through remeasurements and exceptional items. A total of $11.2 million was paid during 2019. At 31 December 2019, the provision was $11.3 million.

24. Leases

Accounting policy applicable from 1 January 2019

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.

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 amount expected to be payable by the lessee under residual value guarantees;
- 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, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, 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.

24. Leases continued

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 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 statement of profit or loss.

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.

Accounting policy before 1 January 2019

Under IAS 17, the determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

As a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Lease charter payment credits, arising from the non-performance of the leased asset, are recognised as an operating expense in the income statement for the period to which they relate.

Some leases held by the Group contain extension options, exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options and reassesses if there is a significant event or significant changes in circumstances within its control.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

As a lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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
Current		101,348
Non-current		614,818
		716,166

The Group leases assets including the Kraken FPSO, property and oil and gas vessels, with a weighted average lease term of 7.1 years. The maturity analysis of lease liabilities are disclosed in note 27.

Amounts recognised in profit or loss

	Year ended 31 December 2019 $'000
Depreciation expense of right-of-use assets	90,657
Interest expense on lease liabilities	55,689
Rent expense — short-term leases	2,646
Rent expense — leases of low-value assets	28
Rent expense — variable lease payments not included in measurement of lease liabilities	—
Total amounts recognised in profit or loss	149,020

Amounts recognised in statement of cash flows

	Year ended 31 December 2019 $'000	Year ended 31 December 2018 $'000
Total cash outflow for leases	135,125	144,820

Leases as lessor (IFRS 16)
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 2019 was $1.3 million (2018: $1.1 million).

24. Leases continued

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

	2019 $'000	2018 $'000
Less than one year	**1,635**	1,540
One to two years	**1,762**	1,635
Two to three years	**1,762**	1,762
Three to four years	**1,762**	1,762
Four to five years	**1,762**	1,762
More than five years	**1,147**	2,909
Total undiscounted lease payments	**9,830**	11,370

25. Commitments and contingencies

Commitments

At 31 December 2019, the Group had capital commitments amounting to $17.9 million (2018: $15.7 million).

Contingencies

The Group becomes involved from time to time in various claims and lawsuits arising in the ordinary course of its business. Other than as discussed below, 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's financial position or profitability, nor, so far as the Company is aware, are any such proceedings pending or threatened.

The Group is currently engaged in discussions with EMAS, one of the Group's contractors on Kraken who performed the installation of a buoy and mooring system, in relation to the payment of approximately $15.0 million of variation claims which EMAS claims is due as a result of soil conditions at the work site being materially different from those reasonably expected to be encountered based on soil data previously provided. The Group is confident that such variation claims are not valid and that accordingly such amount is not due and payable by the Group under the terms of the contract with EMAS. The parties are currently in discussions pursuant to the dispute resolution process under the contract.

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 2019 (2018: none).

Share subscription

In 2018, subscription for new Ordinary shares pursuant to the rights issue (see note 20) at the issue price of £0.21 per share:
- Double A Limited ('Double A'), a company beneficially owned by the extended family of Amjad Bseisu, took up its entitlement in the rights issue, subscribing for 43,849,727 shares;
- Double A participated in the rump placing for 5,000,000 shares; and
- Directors and key management personnel took up their entitlement in the rights issue, subscribing for 382,273 shares.

Office sub-lease

During the year ended 31 December 2019, the Group recognised $0.1 million (2018: $0.1 million) of rental income in respect of an office sub-lease arrangement with Levendi Investment Management, a company where 72% of the issued share capital is held by Amjad Bseisu.

Contracted services

During the year ended 31 December 2018, the Group obtained contracting services from Influit UK Production Solutions for a value of $0.06 million. No services were provided during 2019. Amjad Bseisu has an indirect interest in Influit UK Production Solutions.

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.

	2019 $'000	2018 $'000
Short–term employee benefits	**7,584**	7,052
Share–based payments	**1,245**	1,300
Post–employment pension benefits	**199**	218
	9,028	8,570

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 2019 and 2018, 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 2019 are disclosed in note 19.

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

	Pre–tax profit		Total equity	
	+$10/bbl increase $'000	–$10/bbl decrease $'000	+$10/bbl increase $'000	–$10/bbl decrease $'000
31 December 2019	**(22,894)**	**20,500**	**(22,894)**	**20,500**
31 December 2018	(40,310)	45,146	(40,310)	45,146

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 6% (2018: 3%) of the Group's sales and 95% (2018: 42%) of costs (including operating and capital expenditure and general and administration costs) are denominated in currencies other than the functional currency. In the prior year, the accounting entries for the Magnus acquisition were in US Dollars, therefore reducing the ratio of non–US Dollar denominated costs.

The Group also enters into foreign currency swap contracts from time to time to manage short–term exposures.

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 2019	**(21,893)**	**21,893**
31 December 2018	(41,852)	41,852

27. Risk management and financial instruments continued

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 (see maturity table within liquidity risks below). 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 and at 31 December 2019 there were $2.4 million of trade receivables past due (2018: $5.0 million), $0.1 million of joint venture receivables past due (2018: $1.6 million) and $nil (2018: $nil) of other receivables past due but not impaired. Subsequent to year end, $2.4 million of these outstanding balances have been collected (2018: $4.6 million). Receivable balances are monitored on an ongoing basis with appropriate follow–up action taken where necessary.

Ageing of past due but not impaired receivables	2019 $'000	2018 $'000
Less than 30 days	**381**	4,649
30—60 days	**60**	16
60—90 days	**—**	8
90—120 days	**8**	—
120+ days	**2,056**	1,933
	2,505	6,606

At 31 December 2019, the Group had four customers accounting for 84% of outstanding trade receivables (2018: three customers, 81%) and two joint venture partners accounting for 26% of outstanding joint venture receivables (2018: two joint venture partners, 41%).

Liquidity risk

The Group monitors its risk to 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 2019, $68.2 million (2018: $68.4 million) was available for drawdown under the Group's credit facility (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 include 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.

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**

Year ended 31 December 2018	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	—	364,135	272,189	546,611	—	1,182,935
Bonds[(i)]	—	34,234	36,521	1,229,314	—	1,300,069
Contingent considerations	—	69,093	116,686	306,528	631,470	1,123,777
Obligations under finance leases (IAS 17)	—	93,169	69,689	243,811	302,282	708,951
Trade and other payables	—	419,855	18,209	—	50,412	488,476
	—	980,486	513,294	2,326,264	984,164	4,804,208

(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 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**

Year ended 31 December 2018	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	10,069	52,382	1,852	—	—	64,303
Chooser contract	—	249	—	—	—	249
Interest rate swaps	(837)	9,542	—	—	—	8,705
	9,232	62,173	1,852	—	—	73,257

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 28 to 33).

	2019 $'000	2018 $'000
Loans, borrowings and bond[(i)] (A) (see note 18)	**1,633,441**	2,048,498
Cash and short-term deposits (see note 14)	**(220,456)**	(240,604)
Net debt/(cash) (B)	**1,412,985**	1,807,894
Equity attributable to EnQuest PLC shareholders (C)	**559,061**	983,552
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	**(449,301)**	127,278
Profit/(loss) for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	**214,340**	78,195
Gross gearing ratio (A/C)	**2.9**	2.1
Net gearing ratio (B/C)	**2.5**	1.8
Shareholders' return on investment (D/C)	**(80%)**	13%
Shareholders' return on investment excluding exceptionals (E/C)	**38%**	8%

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

28. Subsidiaries

At 31 December 2019, 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 2019 $'000	Year ended 31 December 2018 $'000
Profit/(loss) before tax		**(729,113)**	93,985
Depreciation	5(c)	**8,207**	5,287
Depletion	5(b)	**525,145**	437,104
Exploration costs impaired/(reversed) and written off	4	**150**	1,407
Net impairment (reversal)/charge to oil and gas assets	4	**812,448**	126,046
Write down of inventory		**14,588**	5,837
Write down of asset	4	**415**	3,602
Loss on fair value of purchase option	4	**–**	1,329
Gain on step acquisition accounting for 25% of Magnus and other interests	4	**–**	(74,345)
Impairment (reversal)/charge to investments	4	**20**	121
Share-based payment charge	5(f)	**5,888**	4,645
Change in contingent consideration	22	**72,685**	14,028
Change in surplus lease provision		**–**	8
Change in decommissioning provision	23	**13,410**	12,617
Change in other provisions		**16,301**	(3,907)
Amortisation of option premiums	19	**(4,936)**	17,208
Unrealised (gain)/loss on commodity financial instruments	5(a)	**65,375**	(97,432)
Unrealised (gain)/loss on other financial instruments	5(b)	**378**	(2,310)
Unrealised exchange loss/(gain)		**15,587**	(21,911)
Net finance (income)/expense		**190,099**	219,191
Operating profit before working capital changes		**1,006,647**	742,510
Decrease/(increase) in trade and other receivables		**(78,056)**	6,844
(Increase)/decrease in inventories		**6,423**	22,255
(Decrease)/increase in trade and other payables		**59,604**	17,020
Cash generated from operations		**994,618**	788,629

29. Cash flow information continued

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 2018	(1,219,675)	(944,875)	(797,933)	(2,962,483)
Adjustment on adoption of IFRS 9	—	(38,117)	—	(38,117)
At 1 January 2018	(1,219,675)	(982,992)	(797,933)	(3,000,600)
Cash movements:				
Cash flows	357,072	—	144,820	501,892
Additions	(175,000)	—	—	(175,000)
Non-cash movements:				
Foreign exchange adjustments	814	11,745	—	12,559
Capitalised PIK	(13,179)	(16,220)	—	(29,399)
Unwinding of finance discount	—	—	(55,837)	(55,837)
Other non-cash movements	(199)	(10,864)	—	(11,063)
Principal reported as at 31 December 2018	**(1,050,167)**	**(998,331)**	**(708,950)**	**(2,757,448)**
Unamortised fees	**3,436**	**8,049**	**—**	**11,485**
Accrued interest	**(3,268)**	**(16,810)**	**—**	**(20,078)**
Carrying value as at 31 December 2018	**(1,049,999)**	**(1,007,092)**	**(708,950)**	**(2,766,041)**
Adjustment on adoption of IFRS 9/IFRS 16	**—**	**16,811**	**(60,527)**	**(43,716)**
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)**
Unwinding of finance discount	**(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)**

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	(661,638)	(971,803)	(716,166)	(2,349,607)
Unamortised fees	2,625	5,572	—	8,197
Accrued interest (note 17)	(2,269)	(29,752)	—	(32,021)
At 31 December 2019	**(661,282)**	**(995,983)**	**(716,166)**	**(2,373,431)**

30. Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method, in accordance with IFRS 3 Business Combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any controlling interest in the acquiree. Those petroleum reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably determined, are not recognised.

Each identifiable asset and liability is measured at its acquisition date fair value based on guidance in IFRS 13 Fair Value Measurement. The standard defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly fashion between willing market participants at the measurement date. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Finalisation of acquisition fair values, during the measurement period of 12 months from acquisition date, are adjusted against the amounts recognised on acquisition where they qualify as measurement period adjustments.

Where consideration for the acquisition includes a contingent consideration arrangement and is within the scope of IFRS 9, this is recognised as a financial asset or liability at fair value through profit or loss. The contingent consideration is carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss, through 'remeasurements and exceptional items' as the transactions do not relate to the principal activities and day–to–day Business performance of the Group and is presented consistently year–on–year.

Acquisitions in 2018

Acquisition of 75% interest in Magnus oil field and associated interests

On 1 December 2018, EnQuest completed the acquisition from BP of the remaining 75% interest in the Magnus oil field ('Magnus'), an additional 9.0% interest in Sullom Voe Oil terminal and supply facility ('SVT') and other additional interests in associated infrastructure (collectively the 'Transaction assets'), constituting a business. This acquisition followed from the acquisition of initial interests completed in December 2017. The transaction is in keeping with EnQuest's strategy of maximising value from late life assets with significant remaining resource potential.

The consolidated financial statements include the fair values of the identifiable assets and liabilities as at the date of acquisition. The financial results for 2018 include the results of the assets for the one–month period from the acquisition date. Accounts receivable are recognised at gross contractual amounts due, as they relate to large and creditworthy customers. Historically, there has been no significant uncollectible accounts receivable in the Transaction assets.

The fair value of the identifiable assets and liabilities of the Transaction assets as at the date of acquisition were:

	Fair value recognised on acquisition $'000
Assets	
Property, plant and equipment (see note 10)	745,350
Inventory	50,977
Trade and other receivables (see note 16)	2,927
Liabilities	
Trade and other payables (see note 17)	(44,617)
Financial liabilities (see note 19)	(8,370)
Deferred tax liability (see note 7)	(94,634)
Total identifiable net assets	**651,633**
Technical goodwill arising on acquisition	94,633
Purchase option derecognition	(20,970)
Purchase consideration	**725,296**
Purchase consideration transferred:	
Cash transferred	100,000
Deferred consideration: Vendor loan	116,530
Contingent consideration: Future cash flow share arrangement	508,766
Total purchase consideration	**725,296**

Goodwill arising on acquisition

The option to purchase the remaining 75% in Magnus and other interests was included with the acquisition of the initial 25% interest. As at 31 December 2017, the option was recognised as a financial asset of $22.3 million. The option was revalued on exercise on 1 December 2018 to the fair value of the acquisition assets, resulting in a financial asset of $21.0 million. The revaluation of the option in the year resulted in an expense of $1.3 million and has been recognised in the statement of comprehensive income through other income in 'Remeasurements and exceptional items'. The option value captures the ability of EnQuest to extend the life of existing mature assets and from the Group's ability to maximise the value from the late life assets with significant remaining resource potential and the increase in underlying oil prices during the year.

On acquisition, the option was derecognised as part of the acquisition assets and liabilities. The goodwill of $94.6 million arises principally due to the requirement to recognise deferred tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. The assessment of the fair value of property, plant and equipment is based on cash flows after tax. Nevertheless, in accordance with IAS 12 sections 15 and 19, a provision is made for deferred tax corresponding to the tax rate multiplied with the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is goodwill. Hence, goodwill arises as a technical effect of deferred tax ('technical goodwill'). None of the goodwill recognised will be deductible for income tax purposes.

30. Business combinations continued

Fair value of consideration

The consideration for the acquisition of the Transaction assets was $300 million, consisting of $100 million cash contribution, paid from the funds received through the rights issue undertaken in October 2018, and $200 million deferred consideration financed by BP, which are to be repaid out of future cash flows from the assets. With an effective date of 1 January 2017, the deferred consideration was adjusted for the interim period and working capital adjustments, resulting in contingent consideration of $116.5 million as at 1 December 2018. The deferred consideration is secured over the interests in the Transaction assets and accrues interest at a rate of 7.5% per annum on the base consideration.

The consideration also included a cash flow 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. The present value of the contingent future cash flow share arrangement over the estimated life of the field resulted in the recognition of contingent consideration of $508.8 million.

The present value of the deferred and contingent profit share consideration is calculated from the future expected cash flows, at a discount rate of 10.0%. These are recognised within contingent consideration (see note 22).

From the date of acquisition to the end of 2018, the Transaction assets contributed $41.7 million of revenue and a $1.2 million gain to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of 2018, revenue from continuing operations would have been an additional $264.7 million and the profit before tax from continuing operations would have been an additional $103.7 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

Fair value uplift

The acquisition of the remaining 75% interest is considered a step acquisition as per IFRS 3 Business Combinations. The property, plant and equipment acquired with the initial 25% has been fair valued as at 1 December 2018, recognising an uplift of $123.9 million to property, plant and equipment and a corresponding deferred tax liability of $49.6 million. The gain on uplift of $74.3 million has been recognised through other income in 'Remeasurements and exceptional items' in the statement of comprehensive income.

31. Subsequent events

Recent market events has resulted in a fall in oil prices and the forward curve, which has been considered within the groups going concern and viability statement (see note 2). If oil prices remain at or below their current levels for an extended period of time, and/or future forecasts for oil prices are lower than those as at 31 December 2019, this would adversely impact our future financial results. A review of fixed asset carrying amounts will be performed during 2020 as part of our interim impairment review based on the prevailing market conditions. Please refer to note 10 for sensitivity analysis regarding the impairments recorded in 2019.

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