

Registration number: 07848478

EnQuest Dons Leasing Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

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EnQuest Dons Leasing Limited

Officers and Other Information

Directors N Hamilton
 P Massie
 S Ricketts

Company secretary K Christ

Auditors Ernst & Young LLP
 1 More London Place
 London
 SE1 2AF
 United Kingdom

Registered office Cunard House
 5th Floor
 15 Regent Street
 London
 SW1Y 4LR
 United Kingdom

EnQuest Dons Leasing Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Principal activities and review of the business

The Company's principal activity during the year was acting as a leasing entity for the Group. A third-party agreement to lease the EnQuest Producer, a Floating, Production, Storage and Offloading (FPSO) unit and associated equipment with a fellow subsidiary, EnQuest Heather Leasing Limited (EHLL) ended in January 2017. In accordance with the terms of the agreement, the Company acquired title to the FPSO and certain equipment items for nominal consideration and subsequently leased the vessel and equipment to EnQuest Heather Leasing Limited (EHLL) under a new arrangement at peppercorn rent.

Principal risks and uncertainties

There are number of risks and uncertainties which may have an impact on the financial performance of the Company, these are managed on a group basis.

The list below does not purport to be exhaustive. There may be other risks and uncertainties not presently known to the Company or that the Company currently deems to be immaterial that could affect the performance of the business.

Risk

Mitigation

Health, safety and environment ('HSE')

Oil and gas development, production and exploration activities are by their nature complex with HSE risks covering many areas, including major accident hazards, personal health and safety, compliance with regulatory requirements, asset integrity issues and potential environmental impact, including those associated with climate change

The Group maintains, in conjunction with its core contractors, a comprehensive programme of assurance activities and has undertaken a series of deep dives into the RMF bowties that have demonstrated the robustness of the management process and identified opportunities for improvement. A HSE continual improvement programme is in place, promoting a culture of engagement and transparency in relation to HSE matters. HSE performance is discussed at each Board meeting and the mitigation of HSE risk has been enhanced through further emphasising the role of HSE oversight within the Safety and Risk Committee's terms of reference. During 2019, the Group continued to focus on control of major accident hazards and 'SAFE Behaviours'.

There has been no material change in the potential impact. However, we have increased the likelihood of this risk, reflecting the possibility of hydrocarbon releases given the age of many of the Group's assets. We have made an absolute commitment to ensure that exposures are known and recognise that there was a high-potential incident on the Heather platform resulting in the shutdown of production. There was an extensive investigation to determine root causes and implement actions to address shortcomings to prevent re-occurrence. The Group's overall record on HSE remains robust.

In addition, the Group has a positive and transparent relationship with the UK Health and Safety Executive and Department for Business, Energy & Industrial Strategy, and the Malaysian regulator, Malaysia Petroleum Management.

EnQuest Dons Leasing Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Risk

Health, safety and environment ('HSE') (Continued)

The availability of competent people given the potential impacts of COVID-19, could impact the operations of the Group.

Mitigation

EnQuest's HSE Policy is now fully integrated across our operated sites and this has enabled an increased focus on Health, Safety and the Environment. There is a strong assurance programme in place to ensure EnQuest complies with its Policy and Principles and regulatory commitments.

The Group continues to monitor the evolving situation with regard to the impacts of COVID-19 in conjunction with a variety of stakeholders, including industry and medical organisations. Appropriate actions will continue to be implemented in accordance with expert advice.

Risk

Reputation

The reputational and commercial exposures to a major offshore incident or non-compliance with applicable law and regulation are significant.

Mitigation

All activities are conducted in accordance with approved policies, standards and procedures. Interface agreements are agreed with all core contractors.

The Group requires adherence to its Code of Conduct and runs compliance programmes to provide assurance on conformity with relevant legal and ethical requirements.

The Group undertakes regular audit activities to provide assurance on compliance with established policies, standards and procedures.

All EnQuest personnel and contractors are required to pass an annual anti-bribery, corruption and anti-facilitation of tax evasion course.

All personnel are authorised to shut down production for safety-related reasons: for example, in 2019, prioritising safety, we shut down production at the Heather and Thistle field.

EnQuest Dons Leasing Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Risk

Mitigation

Fiscal risk and government take

Unanticipated changes in the regulatory or fiscal environment can affect the Group's ability to deliver its strategy/business plan and potentially impact revenue and future developments.

It is difficult for the Group to predict the timing or severity of such changes. However, through Oil & Gas UK and other industry associations, the Group engages with government and other appropriate organisations in order to keep abreast of expected and potential changes; the Group also takes an active role in making appropriate representations.

There has been no material change in the potential impact or likelihood, although the exit of the United Kingdom from the European Union may impact the regulatory environment going forward, for example by affecting the cost of emissions trading certificates.

All business development or investment activities recognise potential tax implications and the Group maintains relevant internal tax expertise. At an operational level, the Group has procedures to identify impending changes in relevant regulations to ensure legislative compliance.

Key performance indicators ('KPIs')

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Future developments

The Company will continue to sub-let the vessel and equipment to its fellow subsidiary, EnQuest Heather Leasing Limited.

Approved by the Board on 1 July 2020 and signed on its behalf by:



N Hamilton
Director

EnQuest Dons Leasing Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year, after taxation is \$584 (2018: \$573). The directors do not propose the payment of a dividend (2018: \$nil).

Directors' of the company

The directors, who held office during the year, were as follows:

G Corr (resigned 31 March 2020)

N Hamilton

P Massie

S Ricketts

Directors indemnity

The Company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006.

Going concern

The company requires support from EnQuest PLC, the parent company, to provide or procure sufficient funds as and where necessary to allow the Company to continue its operations for the going concern period. In its 2019 Annual report and accounts EnQuest PLC stated:

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.

EnQuest Dons Leasing Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

Going concern (continued)

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 significant doubt upon the Group's ability to continue to apply the going concern basis of accounting. 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.

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 these financial statements.

The going concern analysis has been updated since the Group's 2019 Annual Report and Accounts were approved. This has resulted in cash flows being actualised to the end of March 2020, Base Case prices of \$34/bbl have been used to July 2020, \$35/bbl for the remainder of 2020 and \$45/bbl in 2021. Under these prices the Group forecasts no breach of the Liquidity Test. The Group has obtained a waiver from the obligation to perform the Liquidity Test until March 2021 thereby reducing the doubt about the Group's ability to apply the going concern basis of accounting. Applying the 10% discount stipulated in the Liquidity Test and a further reduction in excess of 19% 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. The Group has also updated the reverse stress test and is able to operate within the headroom of its existing borrowing facilities for 12 months from the date of approval of these accounts, based on the breakeven price for liquidity of c.\$15/bbl. Based on the above updates, there is no change in the overall conclusions.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on 1 July 2020 and signed on its behalf by:



N Hamilton
Director

EnQuest Dons Leasing Limited

Statement of Directors' Responsibilities in respect of the Financial Statements

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

EnQuest Dons Leasing Limited

Independent Auditor's Report to the Members of EnQuest Dons Leasing Limited

Opinion

We have audited the financial statements of EnQuest Dons Leasing Limited (the 'Company') for the year ended 31 December 2019, which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework', in accordance with the provisions applicable to companies subject to the small companies regime.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 parent company's ability to provide sufficient support to allow the Company to pay its commitments as they fall due and 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.

Other information

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

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 this other information, we are required to report that fact.

We have nothing to report in this regard.

EnQuest Dons Leasing Limited

Independent Auditor's Report to the Members of EnQuest Dons Leasing Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors Report.

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

EnQuest Dons Leasing Limited

Independent Auditor's Report to the Members of EnQuest Dons Leasing Limited (continued)

Use of our report

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

Ernst + Young LLP

.....
Paul Wallek (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

1 More London Place
London
SE1 2AF
United Kingdom

2 July 2020

EnQuest Dons Leasing Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 \$	2018 \$
Other income/(expenses)	3	4	(32)
Operating profit/(loss)	5	4	(32)
Profit on ordinary activities before finance charges		4	(32)
Interest receivable and similiar income	4	717	740
Profit/(loss) on ordinary activities before taxation		721	708
Tax on profit on ordinary activities	7	(137)	(135)
Profit for the financial year		<u>584</u>	<u>573</u>

The profit for the year ended 31 December 2019 is derived from continuing activities of the Company.

EnQuest Dons Leasing Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	2019	2018
	\$	\$
Profit for the year	<u>584</u>	<u>573</u>
Total comprehensive income for the year, net of tax	<u>584</u>	<u>573</u>


EnQuest Dons Leasing Limited

(Registration number: 07848478)

Statement of Financial Position as at 31 December 2019

	Note	2019 \$	2018 \$
Current assets			
Trade and other receivables: amounts falling due after one year	8	10,817	11,200
Trade and other receivables: amounts falling due within one year	8	4,401	3,301
Cash at bank and in hand		<u>32</u>	<u>32</u>
		15,250	14,533
Trade payables: amounts falling due within one year	9	<u>(49,032)</u>	<u>(48,899)</u>
Net liabilities		<u>(33,782)</u>	<u>(34,366)</u>
Capital and reserves			
Called up share capital	10	159	159
Profit and loss account		<u>(33,941)</u>	<u>(34,525)</u>
Shareholders' deficit		<u>(33,782)</u>	<u>(34,366)</u>

The financial statements of EnQuest Dons Leasing Limited, registered number 07848478, were approved by the Board on 1 July 2020 and signed on its behalf by:


.....
N Hamilton
Director

EnQuest Dons Leasing Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital \$	Retained earnings \$	Total \$
At 1 January 2018	159	(35,098)	(34,939)
Profit for the year	-	573	573
Total comprehensive income for the year	-	573	573
At 31 December 2018	159	(34,525)	(34,366)

	Share capital \$	Retained earnings \$	Total \$
At 1 January 2019	159	(34,525)	(34,366)
Profit for the year	-	584	584
Total comprehensive income for the year	-	584	584
At 31 December 2019	159	(33,941)	(33,782)

EnQuest Dons Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The company is a private company limited by share capital, incorporated and domiciled in United Kingdom.

The address of its registered office is: Cunard House, 5th Floor, 15 Regent Street, London, SW1Y 4LR, United Kingdom. The Company's principal activities is acting as a leasing entity for the Group.

EnQuest Britain Limited, a company incorporated in England and Wales, is the immediate parent company and EnQuest PLC, a Company incorporated in England and Wales, is the ultimate parent company and controlling party which heads the largest group in which the results of the Company are consolidated.

These financial statements were authorised for issue by the Board on 1 July 2020.

2 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and are presented in United States dollars (USD), which is the functional currency of the Company. All values in the financial statements are rounded to the nearest US\$'000 except where otherwise stated. The year-end rate at 31 December 2019 was £1/\$1.314 (2018: £1/\$1.274).

Going concern

The company requires support from EnQuest PLC, the parent company, to provide or procure sufficient funds as and where necessary to allow the Company to continue its operations for the going concern period. In its 2019 Annual report and accounts EnQuest PLC stated:

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.

EnQuest Dons Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Going concern (continued)

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 significant doubt upon the Group's ability to continue to apply the going concern basis of accounting. 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.

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 these financial statements.

The going concern analysis has been updated since the Group's 2019 Annual Report and Accounts were approved. This has resulted in cash flows being actualised to the end of March 2020, Base Case prices of \$34/bbl have been used to July 2020, \$35/bbl for the remainder of 2020 and \$45/bbl in 2021. Under these prices the Group forecasts no breach of the Liquidity Test. The Group has obtained a waiver from the obligation to perform the Liquidity Test until March 2021 thereby reducing the doubt about the Group's ability to apply the going concern basis of accounting. Applying the 10% discount stipulated in the Liquidity Test and a further reduction in excess of 19% 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. The Group has also updated the reverse stress test and is able to operate within the headroom of its existing borrowing facilities for 12 months from the date of approval of these accounts, based on the breakeven price for liquidity of c.\$15/bbl. Based on the above updates, there is no change in the overall conclusions.

EnQuest Dons Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Statement of compliance

The financial statements of EnQuest Dons Leasing Limited for the year ended 31 December 2019 were authorised for issue by the board of directors on 1 July 2020 and the statement of financial position was signed on the board's behalf by Neill Hamilton.

These financial statements were prepared in accordance with Financial Reporting Standards 101 Reduced Disclosure Framework (FRS101) and in accordance with the provisions of the Companies Act 2006.

Summary of disclosure exemptions

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

- a) the requirement of IFRS 7 Financial Instruments: Disclosures;
- b) the requirement of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant and Equipment and paragraph 118(e) of IAS 38 Intangibles;
- d) the requirements of paragraphs 10(d), 10(f), 16,38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- e) the requirements of IAS 7 Statement of Cash Flows;
- f) the requirements of paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- g) the requirement of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member; and
- i) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Where required, equivalent disclosures are given in the Group financial statements of EnQuest PLC, which are publically available.

Standards issued but not yet effective

Standards issued and relevant to the Company, but not yet effective up to the date of issuance of the Company's financial statements, are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company 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 Company'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)

EnQuest Dons Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

2.1 Critical accounting judgements and key sources of estimation uncertainty

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

Taxation

The Company'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 Company applies the appropriate statutory tax rate to each item to calculate the relevant tax charge on exceptional items.

The Company 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 judgements and assumptions regarding the likelihood of future taxable profits and the amount of deferred tax that can be recognised.

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Foreign currency transactions and balances

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

Classification and recognition of assets and liabilities

Non-current assets and non-current liabilities including provisions consist, for the most part, solely of amounts that are expected to be recovered or paid more than twelve months after the balance sheet date. Current assets and current liabilities consist solely of amounts that are expected to be recovered or paid within twelve months after the balance sheet date.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

EnQuest Dons Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Leases

The Company has adopted IFRS 16 Leases from 1 January 2019, using the modified retrospective method, though no opening balance sheet adjustment or change in accounting policy was required on existing leases as a result.

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.

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalised at the commencement of the lease at the fair value of the leased property 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 Company 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.

Taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except where a change attributable to an item of income or expense is recognised as other comprehensive income, in which case, the tax is also recognised directly in other comprehensive income.

Income taxes

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.

Deferred taxes

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company financial statements. 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.

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 Company to make a single net payment.

EnQuest Dons Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

3 Other income/(expenses)

	2019	2018
	\$	\$
Foreign exchange gains/(losses)	<u>4</u>	<u>(32)</u>

4 Interest receivable and similar income

	2019	2018
	\$	\$
Intercompany interest receivable	<u>717</u>	<u>740</u>

The interest receivable was received from EnQuest Heather Leasing Limited under a finance lease arrangement where the Company acts as lessor.

5 Operating profit

This is stated after (crediting)/charging:

	2019	2018
	\$	\$
Foreign exchange (gains)/ losses	<u>(4)</u>	<u>32</u>

The audit fee of \$5,100 (2018: \$3,000) was paid by a fellow subsidiary, EnQuest Britain Limited.

6 Employees and Directors' remuneration

No staff were employed by the Company during the year (2018: nil) therefore no direct staff costs were incurred.

The emoluments of the directors are not paid to them in their capacity as directors of the Company and are payable for services wholly attributable to other EnQuest plc subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

7 Taxation

(a) Tax on profit/(loss) on ordinary activities

Tax charged in the statement of comprehensive income is made up as follows:

	2019	2018
	\$	\$
Current income taxation:		
Group relief payable	<u>137</u>	<u>135</u>

EnQuest Dons Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

7 Taxation (continued)

Factors affecting the tax charges for the year

The tax assessed on the profit on ordinary activities for the period is the same as (2018: same as) the standard rate of corporation tax in the UK of 19% (2018:19%). The differences are reconciled below:

b) Factors affecting the tax credit for the year

	2019 \$	2018 \$
Profit on ordinary activities before tax	<u>721</u>	<u>708</u>
Profit on ordinary activities at standard rate of corporation tax	<u>137</u>	<u>135</u>
Total tax charge for the year	<u>137</u>	<u>135</u>

Finance Act 2016 enacted a change in the mainstream corporation tax rate from 19% to 17% with effect from 1 April 2020. It was announced in the Budget statement on 11 March 2020 and enacted on 17 March 2020 that the corporation tax rate will remain at 19% from 1 April 2020. There is no impact on the current year resulting from this change.

EnQuest Dons Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

8 Trade and other receivables

Amounts falling due within one year:

	31 December 2019	31 December 2018
	\$	\$
Amounts owed by Group undertakings	<u>4,401</u>	<u>3,301</u>

Amounts falling due after one year:

	31 December 2019	31 December 2018
	\$	\$
Amounts owed by Group undertakings	<u>10,817</u>	<u>11,200</u>

Included within the amounts due by Group undertakings are amounts due from EnQuest Heather Leasing Limited in respect of the net investment in the FPSO finance lease (Interest at 6.4%) . An analysis of the future minimum payments in respect of the lease are:

	2019	2019	2018	2018
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	\$	\$	\$	\$
Due in less than one year	1,100	1,100	1,100	1,100
Due in more than one year but less than five years	4,400	3,777	4,400	3,777
Due after five years	13,200	7,041	14,300	7,423
	<u>18,700</u>	<u>11,918</u>	<u>19,800</u>	<u>12,300</u>
Less future financing charges	(6,782)	-	(7,500)	-
	<u>11,918</u>	<u>11,918</u>	<u>12,300</u>	<u>12,300</u>

Other amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

EnQuest Dons Leasing Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

9 Trade and other payables

Amounts falling due within one year:

	31 December 2019	31 December 2018
	\$	\$
Amounts due to Group undertakings	<u>49,032</u>	<u>48,899</u>

All amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

10 Called-up share capital

Allotted, called up and fully paid shares:

	31 December 2019		31 December 2018	
	No.	\$	No.	\$
Ordinary shares of £1 each	<u>100</u>	<u>159</u>	<u>100</u>	<u>159</u>

11 Non-adjusting events after the financial period

The current COVID-19 crisis is a non-adjusting post balance sheet event. Recent market events have resulted in a fall in oil prices and the forward curve, which have been considered within the Company and Group's going concern statement as outline in Note 2 to the financial statements. The Company has considered the impact of this crisis on intercompany receivables. There is a risk that intercompany receivables may not be fully recoverable 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.

12 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was \$Nil (2018: \$Nil).

13 Controlling parties

The company's immediate parent is EnQuest Britain Limited.

The ultimate parent and controlling party which heads the largest group in which the results of the Company are consolidated is EnQuest PLC. Copies of these financial statements can be obtained from 5th Floor, Cunard House, 15 Regent Street, London SW1Y 4LR.