WELCOME TO THE ENQUEST PLC ANNUAL REPORT AND ACCOUNTS 2010.

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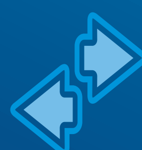

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Examples: This is an example of how the links appear within this document.

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Annual Report and Accounts 2010

enQuest

Delivering growth

An independent oil and gas development and production company

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Skills

Scale

Strength

EnQuest is an oil and gas development and production company: the largest UK independent producer in the UK North Sea.

HIGHLIGHTS

In its first year as a listed company, EnQuest has performed well against its key objectives; delivering strong results with significant increases in reserves and production. We have selectively increased our staffing levels and enhanced our operational capabilities; putting us well on our way to creating a company with distinctive skills.

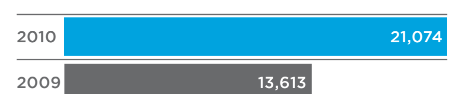
Delivering strong growth

- A strong 55% increase in pro-forma[1] net export production. 21,074 Boepd produced in 2010, 17% higher than the target set in early 2010
- Good operational performances across producing fields, the overall 2010 drilling programme completed ahead of schedule and under budget
- Increased net year end 2P reserves to 88.5 MMboe; equates to a reserves replacement ratio of 208% and an increase in year end reserves of 10%
- Increased 2010 pro-forma revenue by 93% to $614.4 million, with pro-forma EBITDA[2] pre-exceptionals and fair value adjustments, up from $124.8 million to $369.3 million
- Reported cash flow from operations was $267.7 million, over four times 2009 levels
- Increased number of production licences from 16 to 26 during 2010 through the acquisition of Stratic Energy Corporation and the 26th licensing round
- EnQuest is targeting production of 26,500 Boepd for 2011: a 26% increase on 2010

Production
Boepd

Up 55%

Pro-forma daily average net production



2P Reserves
MMboe

Up 10%

Net year end 2P reserves

Pro-forma EBITDA
$ million

Up 196%

Pro-forma EBITDA

1 'Pro-forma' data reflects the results for the 12 calendar months of 2010 and 2009, as if the assets previously owned by Petrofac Limited and Lundin Petroleum AB were owned by EnQuest throughout the period. For detail see page 34.

2 EBITDA is calculated by taking profit/(loss) from operations before tax and finance income/(costs) and adding back gains or losses on sale of assets, negative goodwill and depletion, depreciation and write off of tangible and intangible oil and gas assets.

AT A GLANCE

Strategy for growth

EnQuest intends to deliver sustainable growth in shareholder value by focusing on exploiting its existing reserves, commercialising and developing discoveries, converting contingent resources into reserves and pursuing selective acquisitions.

EnQuest believes that its assets offer material organic growth opportunities, driven by exploitation of current infrastructure on the United Kingdom Continental Shelf ('UKCS') and the development of low risk near field opportunities, rather than exploitation of high risk exploration prospects.

EnQuest intends to focus on increasing production through its existing assets and through selective acquisitions aiming for medium-term production growth of 10% per annum.

EnQuest intends to achieve its strategy through:

- Having geographic focus
- Pro-actively operating its assets
- Maximising production, reserves and cash flow generation from the Group's existing assets
- Utilising the Group's operational, execution, subsurface and integration skills
- Becoming a development partner of choice in the UKCS
- Selective acquisitions
- Delivering balanced growth

Key strengths

EnQuest believes that it benefits from the following key strengths:

- Operational and technical expertise
- Operatorship and high equity interest
- Strong balance sheet
- Cash generation from existing operations

EnQuest believes that the combination of the Group's technical skills, its operational scale and financial strength will position the Group to deliver on its strategy and take advantage of the production and development opportunities in the UKCS. EnQuest's management has considerable experience of working in the UKCS region and a proven track record of identifying valuable assets and developing and producing oil and gas, using innovative and cost efficient solutions.

EnQuest believes that the UKCS represents a significant hydrocarbon basin in a low-risk region, which continues to benefit from an extensive installed infrastructure base and skilled labour.

15 to 24 billion Boe projected reserves and resources is the figure remaining in the UKCS: as estimated in the Oil & Gas UK 2010 Economic Report

Delivering growth

Focus on hubs

Near field appraisal and exploration

Business development

Principal assets

EnQuest's principal assets as at the end of 2010 were its interests in the Heather, Broom, Thistle, Deveron, West Don and Don Southwest producing oilfields and further development opportunities in the Ardmore, Crawford, Southwest Heather, Peik & Burdock, Elke & Pilot, Scolty and Cairngorm discoveries. EnQuest has working interests in 26 production licences covering 34 blocks or part blocks in the UKCS, including those licences offered to EnQuest in 2010 as part of the 26th licensing round. EnQuest is the operator of 21 of its 26 licences.

UK Continental Shelf

No.	Licence	Blocks	Respective EnQuest Working Interest (%)	Name
1	P1487	211/1a, 2a & 3a	60	
2	P1269	211/18c	50	
3	P1455	211/17	50	
4	P1751 (26th round)	3/1c	100	
5	P902	2/4a	55	Broom
6	P242	2/5	55, 100, 55 & 55	Broom, Heather, SW Heather & Ivy
7	P1200	211/13b	50*	West Don
8	P236	211/18a	40*, 60, 60, 99 & 99	West Don, Don SW, Area 26, Thistle & Deveron
9	P475	211/19a	99	Thistle
10	P1608	3/11a	100	
11	P1753 (26th round)	3/17	33.33	
12	P1645	9/8b	60	
13	P090	9/10b & 15a	85 & 33.33**	Peik & Burdock
14	P209	9/28a	19	Crawford
15	P1214	16/2b	100	Cairngorm
16	P1465	15/23c, 24a, 28a & 29e	15	
17	P1463	14/30a	20	
18	P1413	21/7a	40	
19	P1582	20/15a	100	
20	P1614	15/30b	33.33	
21	P1107	21/8a	40	Scolty
22	P1414	21/13b	40	
23	P1790 (26th round)	21/27a & 28/2a	100	Pilot
24	P995	28/3a	70	Elke
25	P1825 (26th round)	30/24b	100	Ardmore Area
26	P1765 (26th round)	30/24c & 25c	100	Ardmore

* EnQuest's unitised equity for West Don as of 31 December 2010 is 44.95%.
** EnQuest's unitised equity for Peik as of 31 December 2010 is 17.66%.

Technical **skills**

subsurface to production

EnQuest has

> years of experience
> expertise
> skill
> innovation
> know-how

AT A GLANCE

Operational **scale**

focused on safe production

EnQuest has

- **many of the global capabilities of the major oil companies in the North Sea**
- **the agility and creativity of a smaller independent operator**

Financial **strength**

cash generative and well positioned
to invest for growth

EnQuest has

> - **a strong balance sheet**
> - **visible cash flow from production**
> - **the financial firepower to take advantage of business development opportunities**

CHAIRMAN'S STATEMENT

J.W. Buckee

Dr James Buckee
Chairman

2010 was an excellent year for EnQuest PLC, following our flotation in April. EnQuest has been using its technical, operational, commercial and asset management skills to implement its differentiated strategy. Our performance delivered an impressive set of maiden results, with strong growth in production and earnings. Pro-forma daily average net production grew by 55% compared to 2009, to 21,074 Boepd in 2010 and basic earnings per share of 4.0 cents increased by 111%. Reported cash flow from operations was $267.7 million, over four times 2009 levels. I am pleased to say that our conviction of EnQuest's potential is already proving to have been well founded.

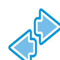
Market conditions
2010 saw the average price of Brent crude oil at $79.5/Bbl, up almost 30% on 2009 and resulted in higher realised oil prices per barrel for EnQuest; up from $65.1 to $81.3 per barrel on a pro-forma basis. During 2010, the increased level of crude oil prices reflected improving financial markets and strengthening of the overall global economy. More recent global geo-political events have increased oil price volatility and highlighted supply side constraints.

Whilst we cannot predict the short-term impact of oil price movements, EnQuest is well positioned in 2011 and well placed to capitalise on opportunities which may arise. Over the long-term, I firmly believe that the fundamental economics of global supply and demand for oil will inevitably result in prices that will strongly support EnQuest's strategy.

2010 was an interesting year for the UK North Sea upstream marketplace, with a number of independents leaving the UK listed sector. Many of those that remain are focused on exploration rather than exploitation and are also managing a range of geographies outside the United Kingdom Continental Shelf. Whilst recent UK government tax changes have been disappointing, nonetheless, EnQuest is well positioned with its strong balance sheet and its skills and capabilities to take forward development projects. I believe that these strengths give EnQuest a competitive advantage in its marketplace.

The timely evolution of EnQuest
In 2010 EnQuest was formed from the demerged UK North Sea assets of Petrofac Limited and Lundin Petroleum AB. In April, following the IPO process, EnQuest PLC made a successful debut on both the London Stock Exchange and the Nasdaq OMX in Stockholm. EnQuest started with an initial net 2P reserves of 80.5 MMboe in the North Sea and a portfolio which included a number of undeveloped discoveries in this mature basin; clearly a compelling fit with EnQuest's 'exploitation' focused model. EnQuest's results today confirm this; these assets have been thriving within EnQuest, benefiting from the financial, technical and operational expertise and capital that is needed to optimise their development.

On formation, EnQuest's operational priorities were the immediate



implementation of an effective health, safety and environment management system and the integration of the overall structures of its two predecessor organisations. During this transformation period, we placed particular emphasis on developing a distinctive EnQuest culture and on establishing the EnQuest values.

In 2010, the EnQuest team delivered; its strong production performance, its success in the 26th licensing round and the acquisition of Stratic Energy Corporation have all reaffirmed our confidence in EnQuest's model and in its ability to achieve its growth objectives.

Investing for the future

The EnQuest Board believes that reinvesting in our core business is key to building shareholder value and that the opportunities for investment are currently such that growth is a more effective way to generate returns for investors than by paying out a dividend. This will be reassessed on a regular basis, but for the foreseeable future, cash will be invested in ongoing production operations development and exploration projects and acquisitions.

Creating a new force in integrated development

In order to help establish EnQuest, we drew together a strong Board, comprising leading industry players with the expertise and experience to take the Company forward. Our Chief Executive, Amjad Bseisu was one of the founders of Petrofac Limited, having started its highly successful Petrofac Energy Developments division, and his vision was the initial driving force in the creation of EnQuest. Both Chief Operating Officer Nigel Hares and I worked initially with BP and then went on to lead Talisman Energy, a company which we are proud to say had an excellent growth record and also a similar business model to EnQuest's. When Nigel and I saw a similarly compelling potential in EnQuest, we had little hesitation in coming on board. Our Chief Financial Officer, Jonathan Swinney, has broad international mergers and acquisition expertise and all of our Non-Executive Directors bring highly relevant in-depth experience of developing similar businesses.

During this critical formative period for EnQuest, it has been invaluable to have both Robin Pinchbeck and Alexandre Schneiter as Non-Executive Directors, given their knowledge of the Company's business and their experience. However their associations with Petrofac Limited and Lundin Petroleum AB mean that they are not independent, for the purposes of the Combined Code. EnQuest therefore undertook that they would both stand down from the Board before April 2012. As part of this process Robin Pinchbeck will be retiring at the EnQuest Annual General Meeting on 25 May 2011. The Board and I would like to thank him for his important contribution to the successful establishment of EnQuest. The Board plans to appoint a new independent Non-Executive Director in the near future.

The creation of EnQuest has evidently put our employees through a considerable period of change; these forces of change have generated a very positive momentum. This has enabled us to optimise our organisational structure, increase our scale and build on our integrated multi-disciplinary capabilities. Whilst EnQuest's projects are always planned rigorously and methodically, our employees also have the agility to respond swiftly and effectively to unexpected opportunities as they arise; I believe that this is a key EnQuest differentiator. After this particularly busy launch year, the Board and I would like to thank EnQuest's employees for their commitment, their enthusiasm and their support throughout.

I would also like to welcome the highly skilled new people who have been joining EnQuest. EnQuest's vision, its performance to date and its pipeline of activity, are all helping us to attract some of the best talent in the industry – this is critical to delivering our ambitious growth plans. We have successfully recruited a number of senior figures during the year, in areas where there is strong competition for resources. EnQuest is building its reputation as a dynamic and attractive place in which to work and where petroleum industry professionals can develop excellent careers.

Governance and the EnQuest Code of Conduct

The launch of EnQuest's Code of Conduct was an important step in 2010. The Code sets out the behaviour which EnQuest expects of its Directors, managers and employees, 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. Our employees and everyone that we work with create and support our reputation and ensure our progress and success. This Code demonstrates our commitment to ensuring that these high levels of conduct continue.

Delivering sustainable balanced growth

There are significant opportunities on the United Kingdom Continental Shelf ('UKCS'). With an estimated 15 to 24 billion Boe of projected reserves and resources remaining in the UKCS, this should be a fertile environment for EnQuest's growth. We believe that we have a good supply of development opportunities and that EnQuest is one of the few companies which can take such opportunities and turn them into operationally and economically viable projects. In the short time since it has been in existence, EnQuest's performance has given the Board increased confidence that it will be able to achieve its medium-term production growth objective.

Earnings per share	cents
2010	4.0
2009	1.9

Our employees have the agility to respond swiftly and effectively to unexpected opportunities as they arise; I believe that this is a key EnQuest differentiator.

CHIEF EXECUTIVE'S REPORT

Amjad Bseisu
Chief Executive

Delivering strong growth

Our first year has been an excellent start for EnQuest, delivering production, operational, and financial results exceeding expectations. Pro-forma production rose 55% to 21,074 Boepd making EnQuest the largest UK independent producer in the UK North Sea. The increase was due to additional production from our Don fields where we drilled one injection and three production wells and to our Thistle field where we have successfully rebuilt a platform rig and drilled and worked over two wells. Our active capital programme increased EnQuest's 2P reserves by 10% to a net 88.5 MMboe, representing a reserve replacement ratio of 208% in our maiden year of operations. EnQuest's financial results were also strong, driven by the increased production levels as well as higher oil prices. Pro-forma revenues were up 93% to $614.4 million and pre-exceptionals EBITDA was up 196% to $369.3 million.

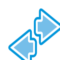
We are well on our way to building a strong technically differentiated company with over a thousand people now working for EnQuest. With safety as our first priority, we have hired new senior management and instituted new systems and a functional responsibility matrix. Our newly formed integrated subsurface and execution teams managed a capital programme totalling $196.3 million on a pro-forma basis. This included the drilling of five production and injection wells, two exploration and appraisal wells, execution of the Don to Thistle export programme, execution of the Broom to Heather improved pipeline and many other upgrade programmes. We also completed a major upgrade of the Thistle platform drilling rig.

Our active drilling programme included what we believe are record drilling times in the northern North Sea – only 41 days for the S5 well at Don Southwest.

EnQuest's differentiated strategy

EnQuest is an exploitation company focusing on discovered reserves, late life assets and near field appraisal and exploration. EnQuest aims to deliver sustainable growth in shareholder value by focusing on exploiting our existing reserves, commercialising and developing discoveries, converting our contingent resources into reserves and pursuing selective acquisitions and opportunities in new licence rounds. With EnQuest's core technical capability and its financial strength, the Company is well placed to grow and to create a substantial development and production company with strong long-term prospects.

The North Sea provides a significant opportunity that fits EnQuest's strategy, with its extensive existing infrastructure and its pool of skilled labour. Our integrated team approach with focus on subsurface and operations skills, allows us to be internally focused on execution. The results of this integrated team approach were exemplified by the excellence of EnQuest's drilling work, our execution of two pipeline projects in 2010 on time and ahead of budget and completion of the Thistle rig refurbishment programme.



Health, Safety and Environment ('HSE')

HSE is our first priority and is integral to how we manage our business, with regard to our people, our installations and the environment in which we operate.

I am pleased that Norman Thomson has joined us as Head of Health, Safety, Environment and Quality ('HSEQ') to manage and further develop our HSEQ systems, policies and procedures and to provide functional safety leadership to all of our Asset Managers. HSE is a critical part of EnQuest's values and is reflected in all of our operational and development decisions. Norman will help to bring further rigour to our performance and operational HSEQ measures, allowing a proactive continuous improvement approach in all of our assets and development projects. In 2010, we had a strong HSE record with an LTA rate of 0.21, and we put in place an HSE culture and HSE systems designed to maintain and improve on our current high standards.

Operational results ahead of expectations

As noted, EnQuest had a 55% increase in pro-forma production to 21,074 Boepd, which came ahead of our 18,000 Boepd target as initially set for the year. This outperformance came primarily from the Don and Thistle fields, where EnQuest had undertaken a programme of active investment.

On the Don fields, a threefold year-on-year growth in production was achieved, with an increase in daily average pro-forma net production from 3,358 Boepd in 2009 to 11,660 Boepd in 2010; in particular reflecting the positive contribution from the Don Southwest S5 and S6 production and injection wells. On Thistle, the newly refurbished rig carried out its first drilling in over 20 years, with the new well drilled under budget and in only 47 days. Approximately $70 million has been invested in an extensive upgrade of Thistle's drilling facilities, allowing us to lower drilling costs significantly and to tap smaller reserves. At our third hub, Heather, the 2010 work programme was focused on a major subsurface review and a drilling evaluation project. This has been completed and a rig upgrade programme will start this year.

A strong financial performance

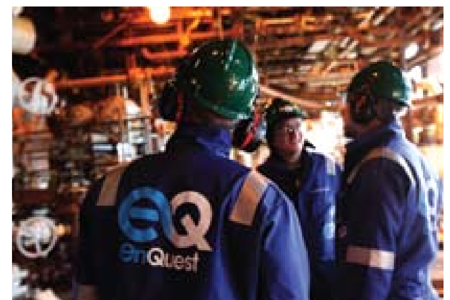
Pro-forma profit before tax and net finance costs rose to $169.4 million, compared to $24.6 million in 2009.

Pre-exceptionals pro-forma EBITDA was 196% up at $369.3 million.

EnQuest also had strong production driven reported cash flow from operations of $267.7 million. During the year, on a pro-forma basis the Group realised average oil prices per barrel of $81.3, compared with $65.1 per barrel in 2009, reflecting the increases in market prices for Brent crude. The year end balance sheet was also strong, with a net cash balance of $41.4 million, after repayment of the $88.8 million of net debt arising from the Stratic acquisition and also $29.2 million of working capital due to Petrofac and Lundin. Our borrowing facility had no cash draw downs as at the end of 2010.

Pro-forma unit cost of sales for production and transportation costs were $30.4 per Boe in 2010, driven partly by one-off workover costs on the West Don W2 well and by the higher than anticipated costs imposed on EnQuest for the maintenance and operation of the Sullom Voe Terminal, the destination for the petroleum from all three of our hubs.

Pro-forma capital expenditure of $196.3 million was less than initially anticipated, partly due to the speed and efficiency of the drilling programme and also to the rephasing of some projects that will now be implemented in 2011. For example the Thistle rig started a programme of partial well abandonments in late 2010, prior to returning to drilling the North West Fault Block, which was consequently rephased into 2011.



With EnQuest's core technical capability and our financial strength, we are well placed to become a leader amongst our peer group and to create a substantial development and production company with strong long-term growth prospects. I believe that EnQuest's differentiated focus on late life development opportunities that are not material to others, will deliver substantial growth for our shareholders.

Production
Boepd

Up 55%

Pro-forma daily average net production

2P Reserves
MMboe

Reserves replacement ratio

208%

Net year end 2P reserves

Pro-forma EBITDA
$ million

Up 196%

Pro-forma EBITDA

Through its resolute focus on execution and its creation of fresh opportunities, EnQuest has delivered in its first year. EnQuest is firmly on track with its ambitious plans to become a substantial exploitation company in the North Sea.

An active and productive business development programme

Since announcing our intention to float, EnQuest's technical and financial capabilities have continued to strengthen as we have assessed a steady stream of potential opportunities.

Just a few weeks after flotation, EnQuest submitted bids as part of the 26th licensing round, and in October 2010, we were pleased to be offered all of the licences we had applied for. These new EnQuest licences complement and build on the strength of our existing portfolio in the North Sea. The new licences included; Ardmore, where studies are underway to assess its redevelopment potential, Pilot, which is a heavy oil discovery close to Elke, block 3/1c which is a small exploration block adjacent to Heather, and block 3/17 an exploration block immediately south east of an existing EnQuest block (3/11a).

In August 2010, we announced our first acquisition since EnQuest's IPO, that of Stratic Energy Corporation ('Stratic'); this was subsequently completed in November 2010. This acquisition was in line with our strategy to deliver sustainable growth in shareholder value through the exploitation of existing reserves and pursuit of selective acquisitions. Stratic added 7.2 MMboe to our 2P reserves, enhanced our working interest in West Don from 27.7% to 44.95% and provided a 19% interest in the Crawford field. At the time of the announcement, the acquisition purchase price, adjusted for tax, equated to US$11.2 per barrel of 2P reserves.

In 2010, we also signed a farm-in agreement with the Kuwait Foreign Petroleum Exploration Corporation ('KUFPEC'), to join us in the Elke discovery. KUFPEC is a subsidiary of the Kuwait Petroleum Company and we believe this is KUFPEC's first upstream investment in Europe.

EnQuest's main focus in acquiring Stratic was its interests in the West Don field and the undeveloped Crawford field, but we recognised that a Stratic project in Slovenia also had some potential in its own right. Following the completion of the Stratic acquisition, we announced the disposal of our 48.75% working interest in the Petisovci project in Slovenia in return for a 22.5% equity stake in Ascent Resources PLC, the operator of the Petisovci project and the owner of an existing 26% working interest. This transaction, completed in February 2011, will enable EnQuest to crystallise such value as may be realised from this asset in the future.

Reserves growth sustaining EnQuest's future production growth

EnQuest seeks to maximise reserves generation from its existing assets and through developments and selective acquisitions. In 2010, we delivered increased reserves by both of these means.

Over the course of the year, we grew our year end net 2P reserves by 10%, this equates to a reserve replacement ratio of 208%. This increase in reserves replaced the 7.4 MMboe produced during the year and in addition also added approximately the same amount again. This robust growth was achieved partly through the Stratic acquisition, but we also delivered a net 8.2 MMboe through the exploitation of our existing assets.

EnQuest increased its acreage position from 16 to 26 licences in the UKCS. These opportunities alongside external ones form the basis for continued conversion of undeveloped and unappraised discoveries to producing assets.

Building a high performance organisation

The EnQuest vision and values have been defined and enthusiastically embraced by our staff. This has greatly helped us to swiftly create one highly focused organisation, from the two heritage companies and more recently also from the Stratic acquisition. Our vision centres around three key elements:

> to become the UK's leading independent oil and gas production and development company
> to become a technical leader in integrated development
> to maximise the potential from existing fields and undeveloped discoveries in the UKCS and beyond

Proven and Probable Reserves (2P MMbbl)

At 1 January 2010	80.50
Production during 2010	(7.41)
Revisions to estimates	8.22
Acquisition (Stratic)	7.20
As at 31 December 2010	**88.51**

Contingent Resources (MMbbl)

At 1 January 2010	72.72
Revisions to estimates	3.77
Acquisitions	8.07
Additions – UK 26th licensing round	25.00
Disposals	(4.50)
As at 31 December 2010	**105.56**

For detail see page 35.

Summary and outlook for 2011:
Delivering growth

In summary, we are pleased to report that EnQuest has exceeded its growth targets for 2010. We delivered pro-forma net production of over 21,000 Boepd, with growth of 55% on the prior year and we generated pro-forma EBITDA of $369.3 million, with strong reported net cash flow from operations of $112.8 million after adjusting for capital expenditure of $154.9 million. In 2010, we increased our year end net 2P reserves by 10% to 88.5 MMboe, with a reserve replacement ratio of 208%. We completed our first acquisition since our IPO, providing us with a meaningful increase in our 2P reserves and increasing our equity in the West Don field. We were also pleased to be offered all of the licences we sought in the 26th licensing round. Our business development effort has provided opportunities for new stand-alone projects and the potential for additional hubs and we have increased the number of EnQuest's UK production licences from 16 to 26.

Building on the momentum of performance in 2010 and the continuous development of our assets, EnQuest is now targeting 26,500 Boepd average net production for 2011. This equates to a 26% increase above 2010, significantly increasing our cash flow. Our 26,500 Boepd target is underpinned by our active 2011 programme of eight wells. Following the early success in 2011 at Area E, the drilling programme will include five production wells, two on Don Southwest and three on Thistle. Our guidance for full year levels of capital expenditure is that we currently anticipate approximately $300 million of capex this year; $250 million on development drilling and facilities, $50 million on exploration and appraisal.

EnQuest was disappointed by the recent unexpected UK Budget decision to increase the supplementary charge levied on North Sea oil and gas production from 20% to 32%. The increase in tax rate does not create a positive climate for additional investments in the UKCS and will render some small field investments uneconomic. Nonetheless, there remains significant potential in our development and production programme and EnQuest is confident of its ability to deliver not only its 2011 targets, but also its medium and longer term growth objectives from its UKCS production and further afield.

Through its resolute focus on execution and its creation of fresh opportunities, EnQuest has delivered against its targets in its first year. This performance and today's results give me more confidence than ever in our ability to deliver sustainable growth in shareholder value through the exploitation of existing reserves, development opportunities and selective acquisitions. We have grown not only our production and reserves levels, but also our staffing, our capacities and our differentiated capabilities. EnQuest is firmly on track with its ambitious plans to become a substantial exploitation company in the North Sea and beyond.

INTERVIEW WITH THE CHIEF EXECUTIVE

2010 EnQuest Timeline

February
> Thistle A46 Jet Pump installed and production recommenced from well A46

March
> S2Z sidetrack well on Don Southwest

> Up and over to Thistle

> Programme of Thistle partial abandonment begins

> EnQuest PLC announces its intention to float on the London Stock Exchange and the NASDAQ OMX Stockholm – including the setting of a production target for 2010 at 18,000 Boepd for pro-forma average daily net production, representing an increase of more than 30% over 2009

April
> Start of trading in EnQuest PLC

> EnQuest submits applications for 26th licensing round

July
> S5 production well online at Don Southwest

August
> EnQuest's maiden set of half year financial results announced – 2010 production target increased by more than 10%, from 18,000 Boepd to 20,000 Boepd

> Announced KUFPEC farm-in to Elke

> Announced intention to acquire Stratic Energy Corporation

> S6 injection well online at Don Southwest

October
> EnQuest PLC offered all the licences it applied for in the 26th licensing round

> W4 production well online at West Don

November
> Broom pipeline replacement and augmentation project completed on time

> Completion of acquisition of Stratic Energy Corporation

> First well on Thistle in over 20 years comes online – the SFB-P1

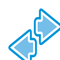
December
> EnQuest closes its first financial year with its share price at 139.5p, 43.5% up on its opening price on the day of flotation

Q. Why an exploitation focus rather than an exploration one?

A. Our vision for EnQuest was based on the conviction that there is a significant opportunity for an agile mid-sized, highly technical organisation that can take advantage of the potential of smaller and late life oil fields which are not material for the industry majors. In North America, this is a tried and tested model for extracting maximum value from mature assets. Increasing the recovery rates on mature late life fields is however not an easy operation and in many ways this is the last 'hard yard'. An organisation with significant in-house technical project resources and a highly efficient integrated organisation is needed to achieve this objective. EnQuest has the necessary technical skills and the required operational scale and financial strength that could make this model a success in the UK. We also undertake some exploration and appraisal work but it is generally limited in scale and is largely low-cost and/or near field in nature. Where such exploration is successful, it carries high rates of return given the limited additional costs of production.

Q. Why the North Sea, isn't it in decline?

A. Production from the UKCS may be past its peak, but the UK still produced 2.4 million Boepd in 2009 and satisfied over 90% of the oil demand in the UK. There is still a lot of potential in the North Sea, with potentially 15-24 Billion Boe of Britain's oil reserves and resources yet to be recovered. In 2010 EnQuest generated an average net production of c21,000 Boepd, so the size of the remaining UKCS reserves and smaller fields represents a highly material opportunity for us. Typically we target fields with 10 MMboe to 20 MMboe of reserves. Doing business in the North Sea also has other advantages: access to a local pool of high quality industry skills and a relatively stable geo-political environment. I am, however, very disappointed by the recent unexpected decision to increase the supplementary tax levied on oil and gas production. The tax increase does not create a positive climate for additional investments in the UKCS and will render some small field investments



uneconomic, negatively impacting both the ultimate recovery of resources in the UKCS and reducing overall tax take when fields are not developed.

Q. Would you look outside the North Sea and if so, when?

A. We currently see good opportunities in the North Sea to satisfy our medium-term ambitions. However our model is certainly also transferable to other mature basins and in due course I would expect EnQuest to have operations outside the North Sea too, especially with the more negative UKCS investment climate created by the tax increase. We will always want to retain the flexibility to respond to the right opportunities if they arise.

Q. What are EnQuest's points of competitive advantage? How would you characterise your in-house resources?

A. Our technical skills, operational scale and financial strength underpin our competitive advantage. This is reflected in our in-sourcing of key areas of expertise. We are building what we believe to be an industry leading integrated team with subsurface, technical and engineering skills focused on smaller fields and late life assets. For example, we believe that we already have one of the largest in-house drilling teams in Aberdeen. The record drilling times we achieved in 2010 are down to excellent integrated planning, teamwork and execution; delivered by teams which have now been working together – often on the same rig - on a steady flow of successive projects. Our track record of delivery to date and our extensive forward pipeline enables us to retain and attract the talent we need to achieve our ambitious growth plans. We have made some important appointments during the year, including development, well support and reservoir engineers, geologists and geoscientists, and will continue to recruit actively going forward into 2011.

Q. Why do you think that the assets which EnQuest was initially comprised of are thriving as much as they are?

A. The assets acquired from Lundin and Petrofac at flotation are at the strategic core of EnQuest, so we have been able to focus on them and invest more aggressively in their development. Furthermore, our integrated subsurface and execution approach has allowed us to unlock further potential from these fields. Within EnQuest, fresh capital investment and technical resources will continue to be directed towards these assets with the aim of building a strong, dynamic hub that can maximise reserves and value.

The hubs are also naturally complementary and give us further value accretion. For example, excess gas from Dons is now piped to Thistle, thanks to our newly commissioned gas pipeline, which reduces the operating costs on Thistle and disposes of unneeded excess gas from the Dons. Also, the cash flow profiles and needs from the fields are complementary. The Dons are young fields which came onstream with high initial production rates and are highly cash generative, but they will also decline quickly. This profile allows us to use cash flow from the Dons production to reinvest into the older Heather and Thistle fields to increase recovery, improve production and extend the lives of these assets.

Q. How have you tackled the challenge of creating EnQuest from two different organisations and is this task complete?

A. We committed a considerable amount of time and resource to integrating the two organisations and were always conscious of the imperative to keep the business moving forwards during both the flotation and the transition periods. Generating a clear vision and sense of purpose from the start made the process easier as staff could relate to the strong shared beliefs in the leadership team and EnQuest's growth aspirations.

Communication has been key as we have created a new management team and moved from a functional to an asset based organisation structure, which meant that many staff changed roles and reporting lines during the integration process. The main transition programmes are now virtually complete and all staff are now together in one location in Aberdeen, but there is more to be done before all our systems and processes are fully integrated.

Q. What is your general approach to business development? What are your strategic and financial investment criteria?

A. It all starts with the subsurface – we ask if these are attractive assets to which we can apply our capabilities, either developing smaller fields or extending field life to maximise production. We then look at infrastructure issues, considering the overlap with our existing hub infrastructure or accessible third party infrastructure or look at the new assets themselves as a new hub. We also analyse the level of strategic fit, the impact of the fiscal regime and of course whether or not they meet our financial investment criteria.

Our technical skills, operational scale and financial strength underpin our competitive advantage.

MANAGEMENT OF RISKS AND UNCERTAINTIES

The Board has articulated EnQuest's strategy to deliver shareholder value by:

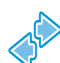
> exploiting its hydrocarbon reserves
> commercialising and developing discoveries
> converting its contingent resources into reserves and
> pursuing selective acquisitions

In pursuit of this strategy, EnQuest has to face and manage a variety of risks. As a result, the Board has established a risk management framework, embedding the principles of effective risk management throughout the business.

Key business risks
The Group's principal risks could lead to a significant loss of reputation or could prevent the business from executing its strategy and creating value for shareholders. These risks, along with mitigating actions are set out below:

Risk	Mitigation
Health Safety and Environment ('HSE') Oil and gas development, production and exploration activities are complex and HSE risks cover many areas including operational safety, personal health and safety, compliance with regulatory requirements and potential environmental harm.	The Group maintains, in conjunction with its core contractors, a comprehensive programme of health, safety, environmental asset integrity and assurance activities and has implemented a continuous improvement programme, promoting a culture of transparency in relation to HSE matters. In addition, the Group has a positive, transparent relationship with the UK Health and Safety Executive.
Production The Group's production is critical to its success and is subject to a variety of risks including uncertain geology, operating in a difficult environment with mature equipment and potential for significant unexpected shutdowns and unplanned expenditure to occur.	The Group's programme of asset integrity and assurance activities provides leading data indicators of significant potential issues which may result in unplanned shutdowns or which may in other respects have the potential to undermine asset availability and uptime. The Group continually assesses the condition of its assets and operates extensive maintenance procedures designed to minimise the risk of unplanned shutdowns and expenditure. The Group monitors both leading and lagging key performance indicators in relation to its maintenance activities.
Lower than expected reservoir performance may have a material impact on the Group's results.	Life of asset production profiles are audited by independent reserves auditors. The Group also undertakes regular internal peer reviews. The Group instigates pro-active operational interventions, when appropriate. The Group's forecasts of production are risked to reflect appropriate production risks.
The Group's delivery infrastructure on the UKCS is dependent on the Sullom Voe Terminal.	The Sullom Voe Terminal has a good safety record and its safety and operational performance levels are regularly monitored by the Group and other Terminal owners to ensure that operational integrity is maintained.
Reserve Replacement Failure to develop its contingent and prospective resources or secure new licences and/or asset acquisitions and realise their expected value.	The Group puts a strong emphasis on subsurface analysis and employs industry leading professionals. The Group has recruited a significant number of employees during the year in a variety of technical positions which enables it to evaluate and subsequently implement the acquisition of new assets and licences. All analysis is subject to internal, and where appropriate, external peer review. The Group allocates resource to manage its reputation with DECC, relative to continuous improvement in safety performance, environmental performance and ultimate recovery of hydrocarbon reserves, therefore enhancing its position to be successful in applying for UK licences. In addition, the Group has secured appropriate bank facilities to fund new licence applications and asset acquisitions. The Group has post acquisition integration procedures which include implementation plans. These implementation plans are monitored on a regular basis to ensure the Group realises its anticipated value from acquisitions.
Financial Inability to fund appraisal and development work programmes.	The Group has secured appropriate bank facilities to fund its development activities, this is due to be refinanced before 6 April 2012. This funding is supported by operating cash inflow from the Group's producing assets. The Group reviews its cash flow requirements on an ongoing basis to ensure it has suitable resources for its needs.

Risk	Mitigation
Human Resources The Group's success is dependent upon its ability to attract and retain key personnel.	The Group monitors its employee value proposition to support the recruitment and retention of technically qualified personnel, used in identifying and executing its commercial and technical work. Specifically, the Group regularly monitors the employment market to provide remuneration packages, bonus plans and long-term share-based incentives plans targeted to incentivise performance and loyalty to the Group. To enable the Company to meet its growth aspirations, the Group is undertaking a number of resource initiatives in 2011 and beyond which will offer significant career development and progression opportunities for the current workforce: including senior management succession planning and talent management. There has already been a high level of recruitment activity; robust recruitment and selection strategies and processes are in place. EnQuest's experienced HR department will continue to seek to recruit in line with current workforce plans and forecasts. The Group also maintains market competitive contracts with key suppliers to support the execution of work, where the necessary skills do not exist within the Group's employee base. In addition the Group allocates resources to develop strong, supportive joint venture partner relationships.
Reputation The reputational and commercial exposures to a major offshore incident are significant.	Operational activities are conducted in accordance with approved policies, standards and procedures. Interface agreements are agreed with all core contractors. The Group undertakes regular audit activities to provide assurance on compliance with established policies, standards and procedures.
Oil Price A material decline in oil and gas prices may adversely affect the Group's results of operations and financial condition.	The Group monitors oil price sensitivity relative to the core economics of its business. In 2010 the Board approved a policy to hedge up to 50% of annual forecast oil production. Approximately 40% of 2011 forecast oil production has been hedged using zero premium collars. In order to develop its resources, the Group needs to be able to fund substantial levels of investment. The Group will therefore regularly review and implement suitable policies to hedge against the possible negative funding impacts of changes in oil prices on revenues and profits.
Political and Fiscal Changes in the regulatory or fiscal environment affecting the Group's ability to deliver its strategy.	It is difficult for the Group to predict the timing or severity of such changes. However, the Group does engage with government and other appropriate organisations, through Oil & Gas UK and other industry associations in order ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations. At a more operational level, the Group has procedures to identify impending changes in relevant regulations to ensure legislative compliance.
Joint Venture Partners Failure by joint venture parties to fund their obligations.	The Group operates regular 'cash call' arrangements with its co-venturers to mitigate the Group's credit exposure at any one point in time and keeps in regular dialogue with each of these parties to ensure payment. Risk of default is mitigated by joint operating agreements allowing the Group to take over any defaulting party's share in an operated asset.
Dependence on other parties where the Group is not the operator.	The Group maintains regular dialogue with its partners to ensure alignment of interests and to maximise the value of joint venture assets.
Competition The Group operates in a competitive environment across many areas including the acquisition of oil and gas assets, the marketing of oil and gas, the provision of oil and gas services and access to human resources.	The Group has a strong balance sheet which puts it in a favourable position to be able to compete effectively and move quickly when looking to acquire assets. The Group also has strong technical and business development capabilities to ensure it is well positioned to identify potential acquisition opportunities. The Group has good relations with oil and gas service providers and constantly keeps the market under review. Human resources are key to the Group's success and programmes outlined above are in place to ensure it can attract and retain key personnel.



OPERATING REVIEW

Nigel Hares
Chief Operating Officer

Overview

EnQuest delivered a robust operational performance in 2010, with a successful drilling programme, strong production results ahead of expectations and a good reserve replacement ratio.

EnQuest's assets include interests in six producing fields situated in the North of the UKCS: Broom, Heather, Thistle, Deveron, West Don and Don Southwest. These assets generated pro-forma daily average net production of 21,074 Boepd, an increase of 55% over the 13,613 Boepd produced in 2009.

Year end net 2P reserves increased by 10% from 80.5 MMboe at year end 2009 to 88.5 MMboe at year end 2010. This equates to a 2P reserve replacement ratio of 208%, as auditied by a recognised 'Competent Person' in accordance with the definitions and guidelines set out under the 2007 Petroleum Resources Management System guidelines, approved by the Society of Petroleum Engineers.

Pro-forma capital expenditure during the year was $196.3 million, which included financing the drilling of five successful production and injection wells in three different fields, and also two exploration and appraisal wells, which were dry.

Keeping EnQuest's people safe and mitigating impacts on the environment in which it operates are always EnQuest's top priorities. EnQuest has well developed policies and processes, monitored at Board level that set continuously improving targets compared with acknowledged industry benchmarks. EnQuest has established a series of both leading and lagging indicators which are monitored at each Board meeting. A long established lagging indicator which EnQuest measures is the number of 'lost time accidents'. EnQuest is committed to working towards not having any such accidents, whilst the 0.21 LTA rate recorded by EnQuest and its leading contractors in 2010 is in the upper quartile of HSE performance in the industry.

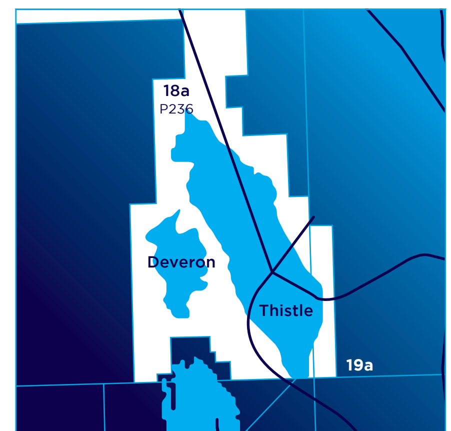
Producing Oil Fields

Thistle and Deveron

Working interest:
> 99% in both fields

No decommissioning liabilities:
> remain with former owners (apart from new incremental developments since acquisition)

Pro-forma daily average net production:
> 2010: 4,836 Boepd (2009: 3,849 Boepd)



Summary

In 2010 the first new well in over 20 years was drilled on Thistle. It was successfully completed and came into production as planned in November. This well made a contribution to the substantial increase in Thistle and Deveron's reserves.

2010 Highlights

It was an exciting year for the Thistle field with the first new well (SFB-P1) in 20 years successfully brought onstream at 800 Boepd. Innovative use of proven technology reduced the complexity of the drilling approach, enabling the new well to be delivered under budget. This followed a previous investment programme of approximately $70 million to upgrade the capability and integrity of the Thistle drilling rig.

A successful partial abandonment programme was completed on four wells, on behalf of the former owners. Production recommenced from well A46 at 600 Boepd following a successful workover and jet pump installation. The connection of the Dons oil and gas pipelines into Thistle brought in owned fuel gas, helping to reduce reliance on third party supplies.

2011

In 2011, we plan to drill three further infill wells; NWFB, EFB-P1 and Dev-P1. Two water injection workovers are also planned.

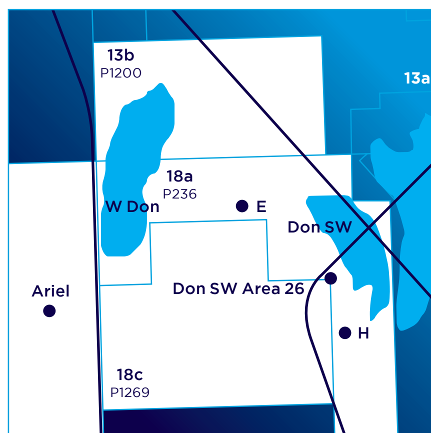
During 2010 work continued on evaluating options to improve platform uptimes and this is expected to result in further investment in 2011 and over the next few years in power generation and control systems upgrades.

The Don Fields

Working interests:
- Don Southwest, 60%
- West Don, 27.7% at start of 2010, increasing to 44.95% in November 2010, through the acquisition of Stratic Energy Corporation

Decommissioning liabilities:
- as per working interests

Pro-forma daily average net production:
- 2010: 11,660 Boepd (2009: 3,358 Boepd)



Summary

Pro-forma production in 2010 of 11,660 Boepd, was over three times the level produced in 2009. This was due to three new production wells, the commissioning of a successful water injection system, the installation of a pipeline connecting the Dons to the Thistle field, and the start up of gas lift. Faster than expected delivery of the wells drilled on the Dons was a key feature of the 2010 performance.

2010 Highlights

The start of 2010 saw the Dons fields switch from a tanker offload system to pipeline export into the Brent system via a newly commissioned pipeline to Thistle. The tanker offload system had allowed early production but was vulnerable to interruption by bad weather. Connection to Thistle delivered a step change in production efficiency and reduced the cost of oil export. The final commissioning of the water injection system was also completed in early 2010. The production wells on both fields responded well to pressure support. These two milestones successfully brought the project phase of the Don development to a close.

Don Southwest

The S2Z sidetrack well (Area 22) started production in March 2010. Water injection to Area 5 and Area 22 also commenced in March 2010.

The S5 and S6 producer injector pair were drilled and brought onstream in record time and ahead of budget. The reservoir properties at S5 proved to be better than prognosed, and the well came online with initial net production of over 13,000 Boepd. One dry exploration well was drilled in the Dons at Area H.

West Don

West Don also benefited from the commissioning of water injection. At West Don a workover was only partially successful and production well W2 remains temporarily suspended. The third West Don production well (W4) was brought onstream for less than budget in late November 2010, at an initial net rate of around 12,000 Boepd.

2011

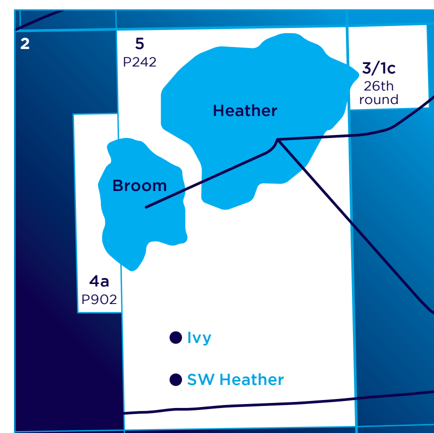
Early in 2011, we drilled a successful exploration well in Area E on Don Southwest and development plans for this new discovery (the Conrie field) are now being finalised. The Don Southwest Area 26 appraisal well was dry. Further drilling plans for Don Southwest in 2011 include a producer-injector pair (wells S8 and S9) in Area 6.

Heather and Broom

Working interests:
- Heather, 100%
- Broom, 55%

Decommissioning liabilities:
- Heather, 37.5%
- Broom, 55%

Pro-forma daily average net production:
- 2010: 4,578 Boepd (2009: 6,406 Boepd)



Summary

In 2010 the Broom pipeline improvement to Heather was completed on schedule and on budget. The dry North West Terrace exploration well at Broom proved that there was no potential for extension to the west. An extensive project to evaluate the remaining drilling potential of the Heather field was completed. This has resulted in the development of a plan to upgrade the drilling rig, with identification of nine well locations and drilling starting in mid 2012. The rig upgrade will start in Q2 2011.

2010 Highlights

Heather

No new drilling took place on Heather during the year. A planned shutdown in 2010 was extended to bring forward maintenance and integrity work, avoiding the need for a shutdown in 2011.

Broom

The BR7 NWT well produced disappointing results and the well was suspended. As expected, 2010 saw a decrease in production over 2009 levels, due to the failure of one of the Broom pipelines from corrosion in 2009. In 2010, a new pipeline was successfully installed and production returned to full capacity. Work was also completed at the BR-2 well to remove a restriction in the gas lift supply enabling the well to be restored to full production.

2011

Following the successful Heather subsurface review in 2010, the Heather rig will be upgraded in 2011 for a drilling programme starting in 2012. An exploration well will be drilled on the Ivy prospect, south of Heather, in 2011.

Opportunities on other EnQuest blocks

Crawford (9/28a)

The acquisition of Stratic provided a 19% interest in the Crawford field where work is being undertaken with partners to prepare development plans.

UK North Sea 26th licensing round

Shortly after flotation in April 2010, EnQuest applied for a number of blocks as part of the UK North Sea 26th licensing round. In October 2010, EnQuest was offered all of the licences that it had applied for.

Ardmore (26th round, 30/24b, 24c & 25c)

Working interest: 100%.

The previously abandoned Ardmore field is being reviewed and options for further redevelopment are being analysed; Ardmore has the potential to be a stand-alone field redevelopment. Seismic surveys have been purchased and evaluated and an option on a Floating Production and Storage Offloading (‘FPSO’) vessel has already been secured.

Peik & Burdock (9/15a & 9/10b)

Working interests: 18% and 85% respectively.

Studies to evaluate the commercial viability of these blocks will continue during 2011. In the second half of 2010, a non-cash impairment amount of $35.0 million was charged against Peik & Burdock in the accounts; this project is highly dependent upon gas prices. It is therefore uncertain whether the project will meet the economic thresholds required.

Elke & Pilot (28/3a) & (26th round, 21/27a & 28/2a)

Working interest: 70% and 100% respectively.

In 2010, KUFPEC, a subsidiary of the Kuwait Petroleum Company, farmed-in to 30% of the Elke block. During 2010, studies took place to evaluate the potential of the existing heavy oil at Elke, these included an electromagnetic survey in August and this evaluation work is ongoing. The Pilot block offered to EnQuest as part of the 26th licensing round is also a heavy oil discovery and its proximity to Elke may improve the economic potential of both blocks.

Scolty (21/8a)

Working interest: 40%.

Following initial exploration work, this field was found to be uneconomic for development on its own. A non-cash impairment of $25.0 million was taken in the first half of 2010. EnQuest continues to work on potential solutions with other licence holders in the area.

Full 12 months pro-forma daily average net production Boepd

	Year	Boepd
Thistle/Deveron	2010	4,836
	2009	3,849
The Don Fields	2010	11,660
	2009	3,358
Heather/Broom	2010	4,578
	2009	6,406

Keeping EnQuest’s people safe and mitigating impacts on the environment in which it operates are always EnQuest’s top priorities.

ENGAGE, ENHANCE, ENABLE

EnQuest **engages** to find new opportunities, we review to establish how much EnQuest can **enhance** the opportunity by adding our value, and if it all adds up we deploy our resources to **enable** the development – we execute our plans, relentlessly maintaining our focus.

Project execution

ENGAGE, ENHANCE, ENABLE

Maintaining excellent working relationships with contractors, operations and the three partners on the field was just one of the key factors behind the successful execution of the project.

Broom augmentation

When one of the two production pipelines which tie the Broom field back to the Heather platform needed to be replaced, EnQuest decided to take the opportunity to increase the capacity of the pipeline and extend its life at the same time – whilst keeping to an exceptionally tight schedule.

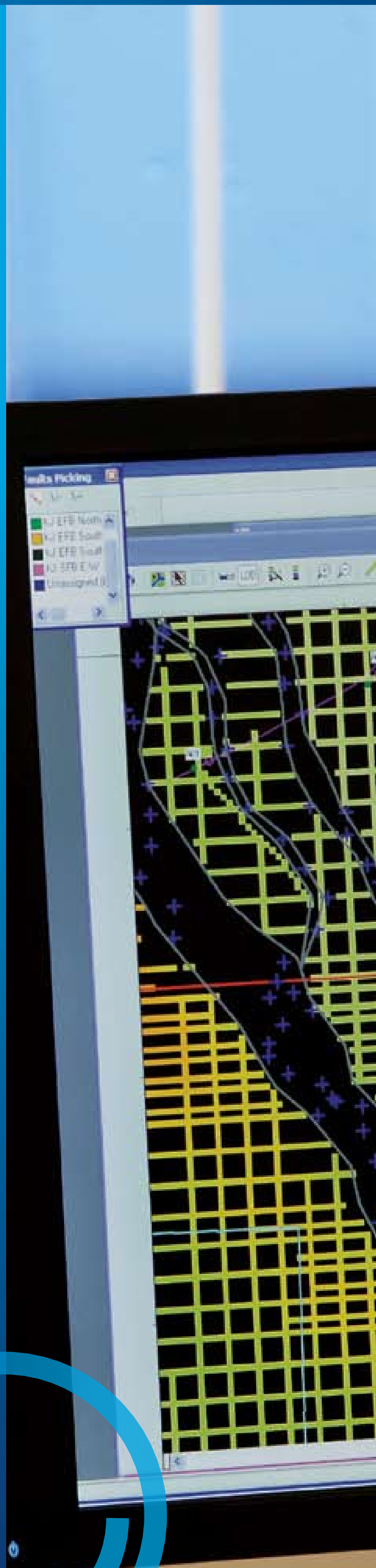
Back in 2009, an unexplained reduction in crude oil arrival temperature at the Heather platform was the first indication of a problem: diagnostics combined with intelligent pigging revealed that the pipeline was no longer fit for purpose.

During the accelerated project define phase, an extensive evaluation of the options was undertaken to get the right design solution before the project was sanctioned – these included replacing the 8″ diameter pipeline with a 10″ diameter pipeline. This was a fast track project: close senior management involvement meant the required decisions were made quickly, a project team of highly skilled individuals was assembled and the supply chain was aligned so that as soon as the main contract was awarded, all the subcontracts instantly followed.

One main contractor was appointed to manage the extensive project elements and interfaces, from engineering to procurement, installation and commissioning. A reeled Pipe in Pipe solution was elected with the new pipeline, mainly constructed onshore, then transported to the field by a reel pipelay vessel and laid in two sections. Metre for metre, it was one of the heaviest pipelines ever installed by the contractor's vessel – one of seven different vessels used during the project.

Maintaining excellent working relationships with contractors, operations and the three partners on the field was just one of the key factors behind the successful execution of the project within an impressive 12 months. The new pipeline tie-in was co-ordinated to coincide with a Heather platform planned maintenance shutdown to minimise the impact on production, with production coming back online in September 2010, with all key performance indicators achieved including zero safety incidents.

Creativity, collaboration and challenge were the critical factors underpinning EnQuest's record breaking drilling programme in the Don fields.



Fast track to success in the Dons

Creativity, collaboration and challenge were the critical factors underpinning EnQuest's record breaking drilling programme in the Don fields, combined with a relentless focus on delivery and safety. Stepping up to the challenge of drilling a well in 50 days, the team completed three successful wells (S5, S6, W4) decisively ahead of target, including drilling 3,000 feet in 24 hours – a record for the Don fields.

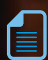
Retaining the same team meant EnQuest was able to capitalise on the knowledge gained during the first phase of activity in the Don fields early in 2010. Experience from phase one led to an innovative approach to the well design for phase two. A simplified well design, combined with careful risk assessment, allowed the drillers to miss out a casing section and drill continuously into the reservoir, saving considerable time.

New cranes and cuttings handling equipment installed on the John Shaw rig before it left the shipyard played a significant role in reducing the time to process the cuttings, part of a major investment to upgrade the rig. Whilst the rig was in the shipyard, the team focused their efforts on driving up performance. The whole team, from drillers to subsurface, subsea to engineering, plus all key service providers, were challenged to make their part of the project more efficient with impressive results: drilling performance accelerated from 1,500 to 3,000 feet per day.

The outcome of these measures was exceptional. The rig arrived in the Dons in early May and S5 was completed by the end of June in 41 days against a budget of 53. Drilling on S6 commenced on 1 July and within 33 days, the team were ready to move on to W4, well ahead of the 55 days planned. 43 days later, W4 was complete, ahead of schedule and 30% below budget. The reservoirs in both S5 and W4 were at the top end of quality expectations and combined with an extra month's production from the accelerated drilling programme, production from the Dons rose threefold above 2009 to 11,660 Boepd.

Subsurface experts

Operator excellence



ENGAGE, ENHANCE, ENABLE

The well added to 2P reserves demonstrating the future potential of the reservoir, extending the life of this mature asset and adding value to the EnQuest portfolio.

Revitalising a key North Sea asset

Drilling the first successful new producer well on the Thistle field since 1990 was a significant achievement in more ways than one. The drilling rig was completely rebuilt, a newly-formed drilling crew arrived on the platform to start up a rig for the first time in 20 years and a new well was completed safely and under budget.

The condition of the drilling rig had degraded during 20 years of inactivity requiring an extensive US$70 million investment to bring it back up to standard, including installing a top drive. By early 2010 a new drilling crew had been mobilised but before they arrived on the platform, team-building exercises onshore – that included production and maintenance staff – ensured that the teams integrated rapidly offshore. Underpinned by the 'Team Thistle Charter' that set out a clear vision for the future of the field and defined key values/working behaviours, this proved a powerful tool in building a high-performing, enthusiastic and committed team.

The safe start up of the newly refurbished rig in February 2010 was a significant milestone and source of pride for the team. Working initially on the A46 workover and the partial abandonment of four wells undertaken on behalf of the field's previous owners, the new rig commenced drilling SFB-P1, the new well, in September. A relentless focus on planning and execution resulted in delivery of the project in 47 days, ahead of schedule and under budget.

The well came onstream at a healthy 800 Boepd and added to 2P reserves demonstrating the future potential of the reservoir, extending the life of this mature asset and adding value to the EnQuest portfolio.

FINANCIAL REVIEW

Jonathan Swinney
Chief Financial Officer

Economic environment

In the year ended 31 December 2010, the Brent crude oil price averaged US$79.5 per barrel, up some US$18 per barrel on the average for 2009, reflecting a gradual shift to greater stability in the global economy following a period of significant economic and financial turmoil. This improvement in the stability of the financial markets, supported by increased confidence in the need to grow world oil production, provided the platform for the Company's IPO in April 2010.

The Group's financial performance in 2010 reflects strong operational performance throughout the year, with revenue up by 93% on a pro-forma basis compared with 2009 reflecting higher production volumes, higher sales prices and the acquisition of Stratic in November 2010.

The Group enters 2011 with US$41.4 million net cash having repaid US$88.8 million of Stratic debt in November 2010; as well as strong ongoing operating cash flows from its existing portfolio of assets and a US$280.0 million bank facility, of which US$206.0 million is undrawn and available for development activities and acquisition opportunities.

Income Statement

Production and revenue

Production levels, on a working interest basis, for the pro-forma 12 months to 31 December 2010 averaged 21,074 Boepd, up 55% compared with 2009. The increase primarily reflects improved production from Don Southwest and West Don fields, which commenced first production in June 2009 and April 2009 respectively, and incremental production from West Don field as a result of the Stratic acquisition. Thistle field production also increased due to well A46 being brought back onstream and sustained high levels of power system uptime. Saleable production was approximately 4% lower than the export meter production volumes quoted above primarily as a result of the partial decommissioning of the LPG processing plant during 2010, resulting in additional volume adjustments being applied by the Sullom Voe Terminal operator.

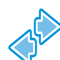
Realised oil prices, on a pro-forma basis for the 12 months to 31 December 2010, averaged US$81.3 per barrel compared with US$65.1 per barrel in 2009, reflecting the increase in market prices for Brent crude.

Operating costs

The Group's pro-forma unit operating cost for the year is broadly consistent with the previous year with a reduction of US$0.3 per Boe (0.6%).

The reduction in the Group's average pro-forma unit production and transportation cost of US$4.4 per Boe for the year ended 31 December 2010 compared with 2009, is primarily attributable to the increase in production volume from Don Southwest.

The increase of US$4.1 per Boe in the Group's average pro-forma depletion expense is also mainly due to the impact of the increase in Don Southwest production compared with the previous year as the Don fields carry a significantly higher depletion rate per barrel compared with the Heather, Thistle and Broom fields.



Well abandonment expenses of US$8.2 million have been reported in 2010 in relation to the partial decommissioning of the Thistle field wells A40/42 and A18/55. The wells were drilled prior to May 2002 and are therefore covered by the Intervening Period and Decommissioning Liability Agreements with the previous field owners. However, the previous owners did not approve the abandonment expense and EnQuest proceeded with performing partial decommissioning of these wells following an agreed programme to perform early partial decommissioning of four other Thistle wells in 2010. As EnQuest considered the safety and integrity of the A40/42 and A18/55 wells and the safety of its personnel and the platform essential, it performed partial decommissioning work on these wells, prioritising the work ahead of drilling further in-fill production wells. Since the previous owners did not approve the work under the Decommissioning Liability Agreement, EnQuest has therefore decided to provide for these expenses but will continue to consider its options to recover these funds from the previous owners.

The Group's reported change in lifting position expense was US$3.9 million for the year ended 31 December 2010, compared with a credit of US$4.6 million in 2009. The increase in expense of US$8.5 million has arisen primarily due to over-lifting of Thistle volumes at 31 December 2010 compared to under-lifting at 31 December 2009.

The reported hydrocarbon inventory movement credit of US$2.8 million in the year ended 31 December 2010 was mainly due to the increase in shipping co-ordinator deadstock resulting from increased production through-put volumes.

Pro-forma revenue US$ million

Year	US$ million
2010	614.4
2009	319.0

Pro-forma gross profit US$ million

Year	US$ million
2010	208.0
2009	59.4

Reported cash flow from operating activities US$ million

Year	US$ million
2010	267.7
2009	59.9

Operating costs

Cost of sales for the Group are as follows:

	Pro-forma[1] (pre-exceptionals and fair value adjustments) Year ended 31 December		Reported (pre-exceptionals and fair value adjustments) Year ended 31 December	
	2010 US$ million	2009 US$ million	**2010 US$ million**	2009 US$ million
Cost of sales	**406.4**[1]	259.6[1]	**384.5**	193.1
	US$	US$	**US$**	US$
Unit operating cost, adjusted for over/under-lift and inventory movements (per Boe):				
– Production and transportation costs	**30.4**[1]	34.8[1]	**30.8**	39.0
– Depletion of oil and gas properties	**22.8**[1]	18.7[1]	**22.2**	13.8
	53.2[1]	53.5[1]	**53.0**	52.8

Reported general and administrative expenses excluding exceptional items were US$13.8 million in the year ended 31 December 2010 compared with US$0.1 million in the previous year. The expenses primarily relate to the Group's general management and business development expenses. Prior to the IPO, all significant general and administrative expenses incurred by Lundin North Sea BV ('LNS') were directly chargeable to joint ventures.

Exceptional items

Exceptional costs totalling US$97.9 million (before tax) have been disclosed separately in the year ended 31 December 2010 relating to:

- non-cash impairment of US$35.0 million in relation to the Peik and Burdock discoveries due to latest development economics being below the Group's investment hurdle rates;
- non-cash impairment of US$25.0 million in relation to the Scolty discovery resulting from EnQuest's decision to discontinue field specific development;
- additional depletion costs of US$16.3 million resulting from the fair value uplift of Petrofac Energy Developments Limited's ('PEDL') oil and gas assets on acquisition;
- demerger and listing expenses of US$8.0 million relating to the Group's formation and listing on the London Stock Exchange and the Stockholm NASDAQ OMX market;
- Stratic acquisition costs of US$5.3 million, including US$4.3 million of redundancy costs; and
- well abandonment expenses of US$8.2 million, outlined above.

Finance costs

Net finance costs reported of US$10.0 million include US$5.2 million unwinding of discount on decommissioning provisions and US$4.3 million of costs associated with the Group's revolving credit facility and letter of credit utilisation during the year.

Taxation

The reported tax charge for the year of US$28.7 million represents an effective rate of 51% compared with 27% in the previous year. The Group's effective tax rate in the year results from UK Corporation tax payable at the statutory rate of 50%, petroleum revenue tax ('PRT') on the Thistle field, ring fence expenditure supplement receivable and prior year adjustments. The Group's 2009 effective tax rate was significantly lower due to prior year PRT adjustments.

Earnings per share

The Group's reported basic earnings per share were US$0.040 for the year ended 31 December 2010 compared with US$0.019 in 2009. The increase of US$0.021 is attributable to the combined impact of an increase in production volumes and realised oil price in the year ended 31 December 2010 compared with the previous year.

Cash flow and liquidity

The Group's reported cash generated from operations in 2010 increased by US$207.8 million to US$267.7 million (2009: US$59.9 million), resulting mainly from the combination of higher average reported realised oil prices in 2010 compared with 2009 and the additional production volumes from Don Southwest and West Don fields following the acquisition of PEDL and Stratic.

Pro-forma[1] cash outflow on capital expenditure is set out in the table below:

	2010 US$ million	2009 US$ million
Expenditure on producing oil and gas assets:		
– Dons hub	**70.8**	207.2
– Thistle hub	**41.5**	39.6
– Heather and Broom hub	**59.1**	23.9
Exploration and evaluation expenditure	**17.1**	2.3
Other capital expenditure	**7.8**	0.3
	196.3	273.3

Significant projects were undertaken during the year, including:

- drilling and completing Don Southwest S5 and S6 development wells;
- new pipeline installed on Broom field;
- Don Southwest phase one drilling programme;
- West Don W4 production well drilling programme;
- Thistle Southern Fault Block sidetrack drilling and completion;
- Thistle electric submersible pump installation;
- long lead costs incurred in preparing for Don Southwest 2011 development drilling programme;
- Thistle and Heather platform structural upgrade programme;
- Don Southwest Area E exploration well top-hole drilling;
- unsuccessful Broom North West Terrace extension well; and
- unsuccessful Area H exploration well.

Net cash at 31 December 2010 amounted to US$41.4 million compared to net indebtedness of US$126.7 million in 2009. In April 2010, prior to the corporate restructure with EnQuest, the outstanding bank loan of LNS amounting to US$156.0 million was assigned to its then parent, Lundin Petroleum AB. The resulting liability between LNS and Lundin Petroleum AB, net of a long-term loan payable to LNS, was capitalised on 31 March 2010.

On 17 March 2010, in anticipation of the corporate restructuring with LNS and the acquisition of PEDL, the Group established a two year US$280.0 million Revolving Credit Facility Agreement with the Bank of Scotland and BNP Paribas. In the half year results, the Group reported an intention to extend this facility by a further US$70.0 million in preparation for the acquisition of Stratic. However, as a result of strong operating cash inflows in the second half of the year, the Group determined that an extension to the facility was not required.

The net cash position at 31 December 2010, together with unutilised committed bank facilities, provides US$247.4 million of funding available to the Group for the 2011 capital development programme and future investment opportunities.

Capital restructuring and acquisitions

The combination of LNS with EnQuest was accounted for as a corporate restructuring under the pooling of interests method. The combination of PEDL with LNS has been accounted for using the acquisition method. Both transactions were satisfied by the allotment and issuance of Ordinary shares in the Company and resulted in a Group merger reserve of US$662.9 million at 31 December 2010.

On 8 November 2010, the Group announced completion of the Stratic acquisition through the allotment and issuance of Ordinary shares in the Company. The acquisition of Stratic enhanced the Group's proven and probable oil and gas reserves in the UKCS and consolidated its position in the West Don asset, providing a further 17.25% working interest in the asset.

Balance Sheet

As a result of the combination of LNS, EnQuest and PEDL described above, the Group's total asset value has increased by US$782.2 million to US$1,439.5 million at 31 December 2010 (2009: US$657.3 million).

Property, plant and equipment

Property, plant and equipment has increased to US$1,136.4 million at 31 December 2010 from US$518.6 million at 31 December 2009. The increase of US$617.8 million is mainly due to oil and gas assets net book value of US$631.2 million added on the acquisition of PEDL and Stratic, together with oil and gas asset additions of US$148.5 million, partially offset by depletion charges of US$177.2 million in the year.

Goodwill

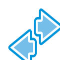
Goodwill of US$100.1 million and US$1.8 million has been recorded in connection with the acquisition of PEDL and Stratic respectively. The goodwill and fair values recognised on the acquisitions are provisional due to the complexity of the acquisition and due to the inherently uncertain nature of a number of critical accounting estimates. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of each acquisition, and the goodwill valuation will then be finalised.

Intangible oil and gas assets

The Group's intangible oil and gas assets value has reduced by US$59.3 million to US$12.3 million at 31 December 2010 compared with US$71.6 million in 2009. The decrease is mainly due to impairment provisions and exploration write offs recorded of US$80.9 million, of which US$57.9 million associated with the Peik, Burdock and Scolty discoveries have been classified as exceptional, and the reclassification of US$18.7 million to asset held for sale at the year end relating to the Petisovci asset. This is partially offset by intangible oil and gas assets of US$22.8 million added on the acquisition of Stratic and additions during the year of US$17.4 million.

Asset held for sale

In February 2011 the Group sold its interest in the Petisovci asset in return for 150,903,958 new Ordinary shares in Ascent Resources plc ('Ascent') and a nil cost option to receive a further 29,686,000 new Ordinary shares in Ascent subject to certain criteria related to the successful development of the Petisovci asset. Costs of US$18.7 million related to this asset, which were added on the acquisition of Stratic, are reported as asset held for sale at 31 December 2010.



Trade and other receivables
Trade and other receivables have increased by US$71.7 million to US$107.5 million at 31 December 2010. US$48.7 million of this increase relates to a rise in trade receivables for oil sales and tariff income due to the improved production volumes and realised oil price in December 2010 compared with December 2009, and US$18.8 million relates to an increase in joint venture receivables in relation to Don Southwest and West Don fields.

Cash and bank
The Group has a strong liquidity position at 31 December 2010, with US$41.4 million of cash and cash equivalents despite undertaking a significant capital expenditure programme with US$196.3 million pro-forma spend in the year, and the repayment of US$88.8 million of Stratic debt shortly after the acquisition in November 2010.

Loans and borrowings
The Group's borrowings of US$156.0 million at 31 December 2010 were cleared in full in April 2010, prior to the corporate restructure with EnQuest, when the LNS loan was assigned to its then parent, Lundin Petroleum BV.

Provisions
The Group's decommissioning provision increased by US$87.2 million to US$140.1 million at 31 December 2010 (2009: US$52.9 million). The increase is due to the combined impact of the acquisition of PEDL and Stratic which added US$66.8 million of decommissioning provisions, additions of US$10.9 million during the year resulting from the Group's drilling programme, unwinding of the discount of US$5.2 million and US$4.3 million resulting from a change in decommissioning estimates during the year.

Trade and other payables
Trade and other payables have increased to US$116.9 million at 31 December 2010 from US$33.3 million at 31 December 2009. The increase of US$83.6 million is primarily due to an increase in accrued capital expenses of US$70.0 million compared with 2009 resulting from the Group's drilling and capital project programme which was ongoing at the end of 2010.

Financial risk management
The Group is exposed to the impact of changes in Brent crude oil prices on its revenue and profits. The Group did not hedge this risk in the years ending 31 December 2010 and 2009. However, during 2010 the Board approved a policy to hedge up to a maximum of 50% of annual oil production and in Q4 2010 the Group entered into four zero premium oil price collars to partially hedge its exposure to fluctuations in the Brent oil price. The oil price collar hedges apply to approximately four million barrels of oil production in 2011 and have an average floor price of US$75 per barrel and an average cap of US$100 per barrel.

EnQuest's functional currency is US dollars. Foreign currency risk arises on purchases, and the translation of assets and liabilities denominated in currencies other than US dollars. During the 12 months ended 31 December 2010 the Group's exposure has been managed by the sale of US dollars on a spot basis.

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 counter-party credit risks.

Key Performance Indicators ('KPIs')

	2010	2009
Lost Time Accidents (days)	**0.21**	0.07
2P Reserves (MMboe)	**88.51**	80.50
Business performance pro-forma data[1]:		
Production (Boepd)	**21,074[1]**	13,613[1]
Revenue (US$ million)	**614.4[1]**	319.0[1]
Realised oil price per barrel (US$)	**81.26[1]**	65.14[1]
Opex per barrel (production and transportation costs) (US$)	**30.4[1]**	34.8[1]
Gross profit (US$ million)	**208.0[1]**	59.4[1]
Capex (US$ million)	**196.3[1]**	273.3[1]
Reported data:		
Cash flow generated from operations (US$ million)	**267.7**	59.9
Net cash/(debt) (US$ million)	**41.4**	(126.7)
Profit before tax (US$ million)	**55.8**	11.0
Basic earnings per share (US cents)	**4.0**	1.9

1 In April 2010 the newly incorporated independent entity EnQuest PLC acquired the demerged UK North Sea assets of Petrofac Limited and Lundin Petroleum AB respectively. This transaction has been accounted for as a capital restructuring of EnQuest and the former Lundin business (Lundin North Sea BV, 'LNS') and an acquisition of the former Petrofac business (Petrofac Energy Developments Limited, 'PEDL'). Consequently the Group statement of comprehensive income, prepared in accordance with IFRS and published on page 55, includes the results of LNS from the start of the 2010 calendar year but only from 5 April 2010 for PEDL. For the comparative period to 31 December 2009, the reported statement of comprehensive income includes the results of LNS only. The results of EnQuest are included from its incorporation date of 29 January 2010. The pro-forma data in the above table presents the trading results for both LNS and PEDL from the start of the 2010 calendar year, as though PEDL was part of the Group for the full 12 months ended 31 December 2010. The comparative data for the year ended 31 December 2009 is presented on the same basis.

ABRIDGED GROUP PRO-FORMA[1] INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010			2009
	Business performance US$'000 Unaudited	Exceptional items and depletion of fair value uplift US$'000 Unaudited	Total for period US$'000 Unaudited	US$'000 Unaudited
Revenue	**614,357**	**–**	**614,357**	318,988
Cost of sales	**(406,403)**	**(16,319)**	**(422,722)**	(259,570)
Gross profit/(loss)	**207,954**	**(16,319)**	**191,635**	59,418
Exploration and evaluation expenses	**(22,987)**	**(57,870)**	**(80,857)**	(6,149)
Impairment of oil and gas assets	**–**	**(2,121)**	**(2,121)**	–
Well abandonment expenses	**–**	**(8,194)**	**(8,194)**	–
General and administration expenses	**(17,126)**	**(13,432)**	**(30,558)**	(11,427)
Other income/(expenses), net	**1,546**	**–**	**1,546**	(17,217)
Profit/(loss) from operations before tax and finance income/(costs)	**169,387**	**(97,936)**	**71,451**	24,625
EBITDA[2]	**369,342**	**(21,627)**	**347,715**	124,778

Notes:
1 In April 2010 the newly incorporated independent entity EnQuest PLC acquired the demerged UK North Sea assets of Petrofac Limited and Lundin Petroleum AB respectively. This transaction has been accounted for as a capital restructuring of EnQuest and the former Lundin business (Lundin North Sea, 'LNS') and an acquisition of the former Petrofac business (Petrofac Energy Developments Limited, 'PEDL'). Consequently the Group statement of comprehensive income, prepared in accordance with IFRS and published on page 55 of the Group Financial Statements, includes the results of LNS from the start of the 2010 calendar year but only from 5 April 2010 for PEDL. For the comparative period to 31 December 2009, the reported statement of comprehensive income includes the results of LNS only. The results of EnQuest are included from its incorporation date of 29 January 2010.
This abridged pro-forma income statement presents the trading results for both LNS and PEDL from the start of the 2010 calendar year, as though PEDL was part of the group for the full year ended 31 December 2010. The comparative data for the year ended 31 December 2009 is presented on the same basis.
2 EBITDA is calculated by taking profit/(loss) from operations before tax and finance income/(costs) and adding back depletion, depreciation and impairment and write off of tangible and intangible oil and gas assets. EBITDA is not a measure of financial performance under IFRS.

Pro-forma profit before tax and net finance costs rose to US$169.4 million, compared to US$24.6 million in 2009. Pro-forma EBITDA was 196% up at US$369.3 million.

OIL AND GAS RESERVES AND RESOURCES
AT 31 DECEMBER 2010

	UKCS		Other Regions	Total
	MMboe	MMboe	MMboe	MMboe
Proven and Probable Reserves (notes 1, 2, 3 & 7)				
At 1 January 2010		80.50	–	80.50
Revisions of previous estimates		8.22	–	8.22
Acquisitions		7.20	–	7.20
Production:				
Export meter	(7.69)			
Volume adjustments:				
Heather, Broom and Thistle (note 5)	0.10			
Dons hub (note 6)	0.18			
		(7.41)	–	(7.41)
Proven and Probable Reserves at 31 December 2010		**88.51**	**–**	**88.51**
Contingent Resources (notes 1,2 & 4)				
At 1 January 2010		72.72	–	72.72
Revisions of previous estimates		3.77	–	3.77
Acquisitions (note 10)		–	8.07	8.07
Additions – UK 26th licensing round (note 8)		25.00	–	25.00
Disposals (note 9)		(4.50)	–	(4.50)
Contingent Resources at 31 December 2010		**96.99**	**8.07**	**105.06**

Notes:
1. Reserves and resources are quoted on a pro-forma working interest basis for the 12 calendar months of 2010 as if the assets previously owned by Petrofac and Lundin Petroleum were owned by EnQuest throughout the period.
2. Proven and Probable Reserves and Contingent Resources have been assessed by the Group's internal reservoir engineers, utilising geological, geophysical, engineering and financial data.
3. The Group's Proven and Probable Reserves have been audited by a recognised Competent Person in accordance with the definitions and guidelines set out under the 2007 Petroleum Resources Management System guidelines approved by the Society of Petroleum Engineers.
4. Contingent Resources relate to technically recoverable hydrocarbons for which commerciality has not yet been determined and are stated on a most likely technical case or '2C' basis.
5. Attributable to partial decommissioning of the Sullom Voe Terminal ('SVT') LPG processing plant during the year, resulting in Heather, Broom and Thistle light ends components delivered to the terminal being reclassified, with the propane no longer forming part of the saleable production revenue stream. Some of this propane value is now recovered by a reduced contribution to terminal fuel and flare costs.
6. Attributable to the change from offshore loading to direct export via SVT during the year. As described in note 5, following partial decommissioning of the SVT LPG processing plant in 2010, propane and butane volumes do not form part of the saleable production revenue stream. Instead, the surplus light ends recovered offshore will contribute to increased SVT oil production and terminal fuel and flare costs.
7. All volumes are presented pre SVT value adjustment.
8. The values presented include some licences offered to the Group in October 2010 which had not legally commenced as at 31 December 2010.
9. On 10 December 2010, the Group assigned 30% of its equity in the Elke P995, Block 28/3a licence to KUFPEC under a Sale and Purchase Agreement.
10. On 11 February 2011 the Group sold its 48.75% interest in the Slovenian Petisovci project. The Group had acquired its interest in Petisovci through its acquisition of Stratic in November 2010 and Contingent Resources of 12.47 MMboe related to this asset were therefore excluded from the Group's Contingent Resources at 31 December 2010.

Our active capital programme allowed EnQuest's 2P reserves to increase by 10% to a net 88.5 MMboe, representing a reserve replacement ratio of 208% in our maiden year of operations.

CORPORATE SOCIAL RESPONSIBILITY REVIEW

Corporate responsibility is integral to the way we operate our business and fundamental to keeping our people safe, protecting our reputation and building a high performance workforce. We have well developed policies approved by the Board and we have set high standards that we will seek to improve as we grow.

Building a talented workforce
One of our first challenges as a newly formed business was to build one company with a single culture from the businesses that were previously with Petrofac and Lundin. We set up a number of teams to work on key aspects of the process and these projects are now essentially complete. Key to the success of these projects was a clear vision from the leadership team based on a strong shared belief in EnQuest's potential, underpinned by a distinctive set of EnQuest values. These values were selected because they were already integral to the way we work and to EnQuest's differentiated set of capabilities. In addition to the formal values launch programme, the EnQuest values are being reinforced in staff performance appraisals.

After flotation, we focused directly on positioning EnQuest for growth, with the right structure, skills and culture to achieve our ambitious targets. EnQuest has a Board and an Executive team with impressive industry credentials, a proven track record and the enthusiasm and drive to take the Company forward. The Executive is supported by a flat organisation structure based around asset management. This has been a significant change from the functional organisations of our heritage companies. We firmly believe that an asset based structure gives accountability and clarity of responsibility and can facilitate rapid growth as new assets are added easily.

This structure, the strength of our performance and our pipeline of activity, had a positive impact on our ability to recruit high quality people. During the year we were able to augment our resources in areas of strong competition for skilled people including well-support and reservoir engineers, geologists and geoscientists. We believe it is important to have key expertise in-house, particularly with regard to core competencies – subsurface, technical and engineering skills. EnQuest is building a reputation as a dynamic, innovative organisation, which can offer exciting opportunities.

During the initial intense period of change, frequent, two-way communication was critical. For example, we supplemented our normal channels with a series of 'Town Hall' meetings attended by all staff, where our performance, progress, targets and future plans were presented, giving staff an opportunity to question the Directors directly.

It has been important to underpin this new, fast growing organisation with strong, well-articulated policies on safety, security, risk management, integrity assurances and our ethical standards to ensure these disciplines are hard wired into the business from the start.

Protecting our people and our environment
Maintaining the highest standards of health and safety is critical for a business working in a challenging environment and we constantly seek ways to improve our safety performance, to reduce our environmental impact and to raise standards.

We have a strong health and safety record to date and made good progress during the year in improving our Reporting of Injuries, Diseases and Dangerous Occurrences Regulation ('RIDDOR') results and reducing our High Potential Incident Occurrences ('HIPO'). All HIPOs are reported and reviewed at Board level, with remedial action checked and approved. In combination with other key contractors, our lost time accident ('LTA') frequency rate was 0.21, which is in the upper quartile of HSE performance in the industry, although we are committed to a 'zero accident' target. The HSE group was strengthened by the appointment of a new manager of corporate safety and additional staff.

Our environmental management system was independently audited this year and we are seeking an ISO 14001 certification by the end of 2011. On the Heather platform, hydrocyclones are being installed in 2011, these will improve oil in water levels. Management of any oil spills is a key part of our emergency response team's crisis management training and targets have been set for 2011 to drive standards up further in this area. Our CO_2 emissions were below the permitted limit this year, as were gas flares.

Whilst we aim to ensure safety is embedded in our culture and seen as everyone's responsibility, we have clear lines of accountability with the Chief Operating Officer responsible to the Board for health, safety and environment ('HSE'). HSE training is a mandatory requirement for everyone offshore but in 2011, we intend to introduce a safety leadership programme for our senior management. In addition we aim to raise competencies in risk management and 'behavioural safety', improving understanding

of why people make mistakes and promoting a proactive safety management culture across the Group.

This is part of a 10 point HSE improvement programme for 2011, that also includes improving life/work balance and promoting healthy working. Heather and Thistle achieved silver awards as part of the Scottish Government's 'Healthy Working Lives' initiative and we intend to promote this initiative across the whole Company in 2011.

Contributing to our community

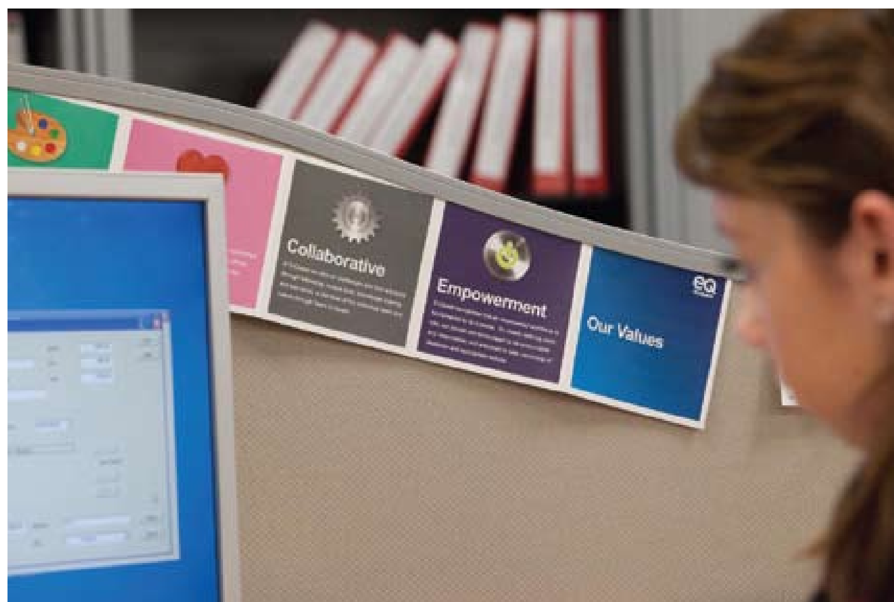
EnQuest's broader community policy is to assist in the development of local community programmes where we operate, in consultation with local government, public and other stakeholders. These have been focused mainly on environmental and youth projects in Aberdeen.

Projects supported include Solstice Nurseries, an organisation that provides work experience and training in horticulture and garden maintenance for people who have experienced mental health problems and want to return to work; a local primary school and support for a local amateur swimming club.

Corporate projects have included support for Fairbridge ("Supporting Inner City Youth") and for Crisis UK.

In addition to current EnQuest charitable funding for small scale environment, youth or local community projects in Aberdeen, local charities are nominated for annual fundraising activities by staff. Many staff also give their time to help such organisations and EnQuest tries to facilitate such initiatives; in addition to the benefits they provide directly to the charities, these projects also contribute to team building and to staff morale. As we continue to grow, we believe we can make a positive impact on the communities within which we operate; we aim to increase these activities during 2011.

EnQuest is currently updating its Charity Committee structures and its existing policies on CSR and HSE; once these policies have been revised and approved they will be available on the Company's website at www.enquest.com. In an important step, EnQuest launched its Code of Conduct during 2010; further details of which can be found in the Chairman's Statement, earlier within this report.



EnQuest Values

Respect
> In EnQuest respect is paramount, for our people, for our environment and the safety of others.

Focus
> EnQuest is an organisation with a relentless focus on results. Our people are accountable and responsible, and entrusted to take ownership of decisions and appropriate actions.

Agile
> Nimble technical and commercial behaviour from a responsive and flexible team allows EnQuest to meet its growth targets and to react to challenges.

Creative
> Creativity and innovation to embrace new ideas and deliver solutions will differentiate EnQuest from its peers. They will lead to a motivated workforce with greater self confidence, pride and self management.

Passion
> EnQuest is a passionate, enthusiastic and committed organisation. Individuals and teams inspire others and create a catalyst with a positive impact on the organisation and projects.

Collaborative
> In EnQuest we take on challenges and find solutions through fellowship, mutual trust, knowledge sharing and teamwork at the level of the individual team and overall through Team EnQuest.

Empowerment
> EnQuest recognises that an empowered workforce is fundamental to its success. By clearly defining each role, our people are encouraged to be accountable and responsible, and entrusted to take ownership of decisions and appropriate actions.

BOARD OF DIRECTORS

EnQuest is an organisation with a relentless focus on results. Our people are accountable and responsible, and entrusted to take ownership of decisions and appropriate actions.

Dr James Buckee
Chairman
James Buckee holds a BSc Honours degree in Physics from the University of Western Australia and a PhD in Astrophysics from Oxford University. From 1971 to 1977, James held various petroleum engineering positions with Shell International and Burma Oil and from 1977 to 1987, he was appointed to various posts within BP, London.

In 1987 James was appointed as operations manager for BP Norway, and thereafter vice-president, development programmes, for BP Alaska. In 1989 James returned to the UK as manager, planning, for BP Exploration. In 1991 he was appointed president and chief operating officer of BP Canada Inc. and in 1993 as president and chief executive officer of Talisman Energy Inc. (formerly BP Canada), steering the company from its Calgary base to an international powerhouse in Europe, Asia and Africa. James retired from Talisman Energy Inc. in 2007.

James was appointed as Non-Executive Chairman of EnQuest PLC in 2010, where he sits on the Audit and Remuneration Committees and chairs the Nominations Committee. James also serves as a non-executive director on the board of Cairn Energy PLC.

Amjad Bseisu
Chief Executive
Amjad Bseisu holds a BSc Honours degree in Mechanical Engineering from Duke University and an MSc and D.ENG degree in Aeronautical Engineering from Stanford University. From 1984 to 1998, Amjad worked for the Atlantic Richfield Company (ARCO), ultimately as head of international marketing, negotiations and business development, becoming president of ARCO Petroleum Ventures and ARCO Crude Trading Inc.

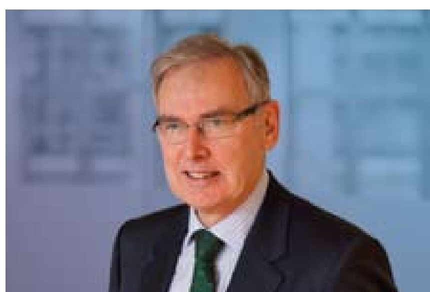
In 1998 Amjad founded the operations and investment business for Petrofac Limited and has been the chief executive officer of Petrofac Energy Developments International Limited since its founding. In 2007 Amjad rejoined the board of Petrofac Limited, having previously served with Petrofac Limited prior to its admission to listing on the London Stock Exchange in 2005. In April 2010 Amjad stood down from the board of Petrofac Limited in order to form EnQuest PLC and was appointed to the Board as Chief Executive. Previously Amjad was a founding non-executive director of Serica Energy plc and Stratic Energy Corporation. Amjad is also non-executive chairman of Enviromena Power Systems, a private company and the leading developer of solar services in the Middle East and North Africa.

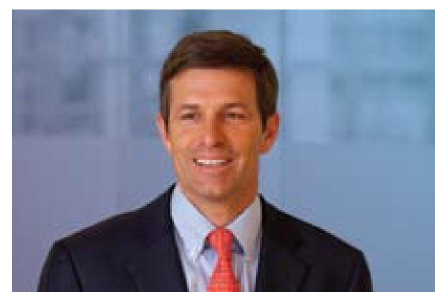
Nigel Hares
Chief Operating Officer
From 1972 to 1994, Nigel worked for BP Exploration and Production in the UK, Abu Dhabi, Norway and Alaska. At BP Exploration and Production, Nigel's roles included those of drilling engineer, petroleum engineer, reservoir engineer, well-site engineer and offshore production engineer. Nigel also held positions of production and pipeline superintendent, manager of petroleum engineering, manager of reservoir studies for Middle East, Europe and Africa and business advisor, developing global gas strategies for BP Exploration and Production, reporting to BP's CEO of Global Gas.

From 1994 to 2009, Nigel was executive vice-president, international operations, for Talisman Energy Inc. heading Talisman's international operations for the UK, Norway, Netherlands, Algeria, Sudan, Malaysia, Indonesia, Vietnam, Peru, Colombia and Trinidad. In 2010 Nigel joined EnQuest PLC and was appointed to the Board.

Jonathan Swinney
Chief Financial Officer
Jonathan Swinney qualified as a chartered accountant with Arthur Andersen in 1992 and is a member of the Institute of Chartered Accountants of England and Wales. Jonathan qualified as a solicitor in 1997 and trained at Cameron McKenna, joining the acquisition finance team upon qualification.

In 1998 Jonathan joined Credit Suisse First Boston. Working within the corporate broking team, he advised both listed and unlisted companies on various equity market related





matters, including mergers and acquisitions and flotations. Jonathan later moved to Lehman Brothers advising on a wide range of transactions and in 2006 he became a managing director within the corporate broking team. Jonathan joined Petrofac Limited in April 2008 as head of mergers and acquisitions for the Petrofac Group. Jonathan left Petrofac Limited to join EnQuest PLC in 2010 when he was appointed to the Board.

Helmut Langanger
Non-Executive Director
Helmut Langanger holds an MSc degree in Petroleum Engineering from Mining University Leoben Austria and an MA in Economics from the University of Vienna. From 1974 to 2010, Helmut was employed by OMV, Austria where he was a reservoir engineer until 1980. From 1981 to 1985, Helmut was an evaluation engineer for the technical and economic assessment of international E&P ventures and from 1985 to 1989, he held the position of vice-president, planning and economics for E&P and natural gas projects.

In 1989 Helmut was appointed as senior vice-president of international E&P and in 1992 became senior vice-president of E&P for OMV's global operations. From 2002 Helmut had been the group executive vice-president for E&P, OMV until he retired in 2010. In 2010 Helmut was appointed to the Board of EnQuest PLC and sits on the Audit and Nominations Committees and chairs the Remuneration Committee. Helmut is also the Senior Non-Executive Director of EnQuest PLC and a member of the supervisory board of Schoeller Bleckman Oilfield Equipment A.G.

Jock Lennox
Non-Executive Director
Jock Lennox holds a Law degree from the University of Edinburgh and in 1980 he qualified as a chartered accountant with Ernst & Young LLP, Edinburgh. Jock is also a member of the Institute of Chartered Accountants of Scotland. In 1988 Jock became a partner at Ernst & Young LLP, London, after having held a number of leadership positions in the UK and the United States. Jock was a senior partner at Ernst & Young from 2008 to 2009, leading Ernst & Young relationships with a number of major multinational clients, reporting to and advising the boards on a range of complex audits, financial restructurings and corporate transactions. Jock retired from Ernst & Young in 2009.

In 2010 Jock was appointed to the Board of EnQuest PLC and sits on the Nominations and Remuneration Committees and chairs the Audit Committee. Jock is a non-executive director of Hill & Smith Holdings plc, Oxford Instruments plc and A&J Mucklow Group plc and sits on the Council of the Institute of Chartered Accountants of Scotland.

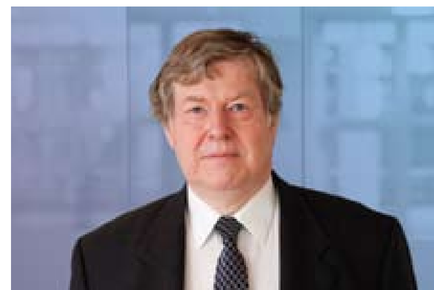
Robin Pinchbeck
Non-Executive Director
Robin Pinchbeck is a graduate of Imperial College, London and Stanford University. After 23 years with BP, Robin moved to the oil services sector and from 1995 to 1998 was managing director of Atlantic Power & Gas, a leading North Sea operations services provider and pioneer of the contractor 'duty holder' model. Atlantic Power & Gas was sold in 1998 to Petroleum Geo-Services ASA, which was subsequently purchased by Petrofac in 2002.

Robin established Petrofac's Facilities Management business which now forms part of the Offshore Engineering & Operations business. Robin is the non-executive chairman of Sparrows Limited, a CBPE backed international crane services specialist and is a non-executive director of SLR Consulting Limited, a 3i backed international environmental consultancy firm. In 2010 Robin was appointed to the Board of EnQuest PLC.

Alexandre Schneiter
Non-Executive Director
Alexandre Schneiter holds a degree in Geology and a Masters degree in Geophysics from the University of Geneva. From 1987 until 1989, Alexandre worked in the mining industry as a geophysicist before joining a public Canadian oil company as geophysicist, seismic interpreter and seismic acquisition quality control officer. Since 1993 Alexandre has worked with public companies associated with the Lundin family and in 1998, he was appointed vice-president, exploration, of Lundin Oil AB.

In 2001 Lundin Oil AB was acquired by Talisman Energy of Canada and Alexandre was appointed executive vice-president and chief operating officer of Lundin Petroleum AB. Alexandre is also a director of ShaMaran Petroleum Corp., a Canadian listed oil and gas company with interests in the Kurdistan region of the Republic of Iraq. In 2010 Alexandre was appointed to the Board of EnQuest PLC.

SENIOR MANAGEMENT



Paul Lindop
UKCS General Manager
Paul Lindop graduated from Imperial College London in 1984 with a Masters degree in Petroleum Engineering and has over 26 years of experience in the oil and gas industry. Paul initially joined Total Oil Marine working in Paris and Aberdeen as a reservoir engineer. In 1989 he was appointed commercial manager for Oryx UK Energy Company and reservoir engineer for Oryx Energy, followed by 10 years in various managerial positions for Kerr-McGee.

In 2005 Paul was appointed as an appraisal manager for Maersk Oil working on Flyndre/Boa and wider exploration portfolio and Transmedian line development. In October 2007 he joined Lundin Britain as an asset manager for the Heather, Broom and Thistle fields and was promoted to the position of managing director in February 2009. Upon the formation of EnQuest, Paul was appointed UKCS General Manager.

Craig Matthew
New Developments and Deputy General Manager
Craig Matthew graduated from Dundee University with an Honours degree in Civil Engineering in 1991 and now has 20 years of field development, project management, engineering and construction experience in oil and gas projects, both in the UK and overseas. Immediately after graduating he spent 10 years working for Stena Offshore (Coflexip Stena) in a variety of subsea project roles whilst also completing a Post-Graduate certificate in Project Management at Aberdeen University.

Craig then joined Kerr-McGee/Maersk as subsea manager for the Maclure and Tulloch fields, eventually becoming project manager for the Dumbarton Field Development. Craig became part of EnQuest via Petrofac Energy Developments after joining Petrofac in 2007 as project manager for the Don Area Development. After completing an initial assignment as Thistle Asset Manager, Craig is now New Developments and Deputy General Manager.

Andrew Thomson
General Manager, Technical
Andrew Thomson graduated from Heriot Watt in 1983 with a Masters degree in Petroleum Engineering and has a wealth of experience working as a petroleum, reservoir and operations engineer. Andrew first worked for Schlumberger in Africa and spent seven years working for Britoil and then BP in the UKCS.

In 1990 Andrew co-founded RML where he was managing director, followed by Senergy in 2005, where he held director roles as chief financial officer then chief executive officer of Senergy Investments. Andrew has acted as a Competent Person in reserves reporting and is a chartered engineer. Andrew joined EnQuest full time in October 2010, having supported the formation of EnQuest from December 2009 as a consultant. As General Manager, Technical he is responsible for the technical aspects of Business Development and Quality Assurance of subsurface work across the Company.

Graham Cooper
Head of Business Development
Graham Cooper graduated from Cambridge University in 1978 with a Masters degree in Natural Sciences. Graham worked as a wireline logging engineer for four years, before joining Conoco in London as a geologist and petrophysicist. During the period from 1982 to 1993, he held a number of technical roles for Conoco, both in the UK and Dubai UAE, before moving into various commercial roles in acquisitions and divestments, asset commercial, and joint venture management.

In 1999 Graham joined Shell UK as new business development manager in Aberdeen and subsequently moved to The Hague in 2005 to take up the role of vice-president commercial for global exploration. Graham latterly became head of Shell's commercial academy before joining EnQuest in October 2010.

Jonathan Lee
Head of Legal
In 1973 Jonathan Lee graduated from Bristol University with an Honours degree in Law and now has over 25 years of legal experience in the oil and gas sector. Jonathan was called to the Bar of England and Wales in 1974 where he began his career as a barrister in private practice at the English Bar specialising in international and competition law, followed by two years in the nuclear power industry and five years in the steel industry.

From 1985 to 1999, Jonathan worked in-house for Santa-Fe Minerals UK, Texas Eastern and Enterprise Oil. Following this, he took senior in-house consulting roles at Phillips Petroleum, Talisman and latterly TOTAL E&P UK.

Jonathan joined EnQuest in July 2010 as Head of Legal, responsible for Group legal affairs including the negotiation of commercial contracts, acquisitions and disposals and regulation and risk.

Norman Thomson
Head of HSEQ
Norman Thomson graduated from the University of Aberdeen in 1982 with an Honours degree in Biochemistry and later completed a Masters degree in Occupational Safety and Environmental Management from the University of Portsmouth.

Following a career at senior management level within the fire and rescue service, Norman joined BP and worked as an offshore HSE advisor on the Forties field. Returning onshore as a corporate HSEQ manager, he worked in several countries including Brunei, Africa and South America.

Norman joined KBR in 1999 as an HSEQ manager, working mainly on subsea and topsides construction projects for Chevron, Texaco and Marathon. Norman's next role was as European HSEQ director for a large food manufacturing company, returning to the oil and gas industry two years later working for BP in Norway as HSE manager before joining EnQuest in December 2010.

DIRECTORS' REPORT

The Directors of the Company submit their report together with the Group and Company audited financial statements for the year ended 31 December 2010.

The Company was incorporated as EnQuest PLC on 29 January 2010 in England and Wales under the Companies Act 2006 (the 'Companies Act') to become the ultimate holding company of the Group. The Company's shares were admitted to listing on the Official List and to trading on the Main Market of the London Stock Exchange as well as to secondary listing and trading on the NASDAQ OMX Stockholm in April 2010. The Company is a member of the FTSE 250 Index.

Principal activities

The Group is an independent oil and gas development and production Group with its main focus on the UKCS. The Group's producing assets include interests in six producing fields in the UKCS: Broom, Heather, Thistle, Deveron, West Don and Don Southwest. The Group operates through a number of principal subsidiaries which are set out in note 26 of the financial statements on page 79.

Business Review

The Business Review includes the financial performance during the financial year, future developments, performance of the Group and principal risks and uncertainties facing the Group. A review of the business is incorporated by reference, forming part of this Directors' Report and further information can be found in the following sections below:

- Chairman's Statement on pages 10 and 11;
- Chief Executive's Report on pages 12 to 15;
- Operating Review on pages 20 to 22;
- Financial Review on pages 30 to 33;
- Key Performance Indicators on page 33; and
- Corporate Social Responsibility Review on pages 36 and 37.

The Company's 'forward-looking statements' form part of the Business Review on pages 10 to 37.

Corporate governance statement

In accordance with the Financial Services Authority's Disclosure and Transparency Rules ('DTR') 7.2.1, the disclosures required by DTR 7.2.2 and DTR 7.2.7 may be found in the Corporate Governance Report on pages 45 to 48.

Results and dividends

The Group's financial statements for the year ended 31 December 2010 are set out on pages 53 to 85.

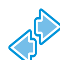
The Company has not declared or paid any dividends since incorporation and does not have any current intentions to pay dividends in the foreseeable future. Future payments of dividends are expected to depend on the earnings and financial condition of the Company and such other factors as the Board of Directors of the Company consider appropriate.

Directors

With the exception of Richard Milne, all Directors of the Company, as listed below, served from the date of their respective appointment throughout 2010 and up to the date of signing the financial statements.

Name of Director	Date of appointment
Dr James Buckee, Chairman and Non-Executive Director	22 February 2010
Amjad Bseisu, Chief Executive	22 February 2010
Nigel Hares, Chief Operating Officer	22 February 2010
Jonathan Swinney, Chief Finance Officer	29 January 2010
Helmut Langanger, Non-Executive Director	16 March 2010
Jock Lennox, Non-Executive Director	22 February 2010
Robin Pinchbeck, Non-Executive Director	22 February 2010
Alexandre Schneiter, Non-Executive Director	22 February 2010
Richard Milne, Non-Executive Director	29 January 2010[1]

Note:
1 At the date of the Company's incorporation, Mr Richard Milne was appointed a Director and resigned at the first Board meeting on 22 February 2010.



Biographical details of all the Directors can be found on pages 38 and 39.

Directors' election and rotation

With regard to the retirement and re-election of Directors, the Company is governed by its Articles of Association (the 'Articles'), the Combined Code and the Companies Act. Directors have the power to appoint a Director during the year but any person so appointed must stand for election at the next Annual General Meeting ('AGM'). A retiring director is eligible to stand for re-election. The Directors of the Company are fully committed to supporting the principles of good governance outlined in the UK Corporate Governance Code, which was published by the Financial Reporting Council in June 2010 and which replaces the existing Combined Code on Corporate Governance for accounting periods beginning on or after 29 June 2010. The UK Corporate Governance Code recommends that all directors of FTSE 350 companies should be subject to annual election by shareholders. The Directors have decided to adopt this provision of the new UK Corporate Governance Code early, on a voluntary basis.

In accordance with the above provisions, each of the Directors of the Company will retire and, being eligible, offer themselves for re-election at the next AGM, with the exception of Robin Pinchbeck, who will not be standing for re-election.

Powers of the Directors

Subject to the Company's Articles, relevant statutory law and any direction that may be given by the Company in the AGM, the business of the Company is managed by the Directors who may exercise all powers of the Company.

Directors' indemnity provisions

Under the Company's Articles, the Directors of the Company are indemnified out of the assets of the Company against all costs, charges, expenses, losses or liabilities sustained or incurred in or about the execution of their duties. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Share capital

The Company has a single class of share capital, which is divided into Ordinary shares of £0.05 each ('Ordinary shares'). Each Ordinary share carries one vote.

The Company's issued share capital and total voting rights as at 4 April 2011 comprises 799,462,905 Ordinary shares issued and outstanding, which constitutes 100% of the total voting rights of the Company. All of the Company's issued Ordinary shares have been fully paid up. Further detail on the Ordinary shares issued during the financial year can be found in note 17 of the financial statements on page 73.

Further information regarding the rights attaching to the Company's Ordinary shares can be found in note 17 to the financial statements on page 73. No person has any special rights with respect to control of the Company.

There are no specific restrictions on the size of a holding of, or the transfer of, Ordinary shares, both of which are governed by the Company's Articles and the current legislation. The Directors are not aware of any agreements between holders of the Company's Ordinary shares that may result in restrictions on transfers of, or voting rights in connection with, Ordinary shares.

The Company did not purchase any of its own shares during 2010 or in 2011 up to and including 4 April 2011, being the date of this report.

Company share schemes

The Group Employee Benefit Trust holds 0.9% of the issued share capital of the Company in trust for the benefit of employees and their dependents. The voting rights in relation to these shares are exercised by the trustees.

Directors' interests

The interests of the Directors in the Ordinary shares of the Company are shown below:

Name	As at 6 April 2010[1]	31 December 2010	4 April 2011
Amjad Bseisu[2]	17,898,149	31,175,613	31,175,613
Dr James Buckee	0	281,617	281,617
Nigel Hares	0	200,000	200,000
Jock Lennox	0	20,000	20,000
Robin Pinchbeck	820,000	1,001,617	1,001,617
Alexandre Schneiter	136,212	400,000	400,000
Jonathan Swinney	16,630	62,033	62,033

Notes:

1 Being the date that the Company's Ordinary shares were admitted to listing on the Official List and to trading on the Main Market of the London Stock Exchange.

2 The shares are held by Double A Limited and Alima Trust, both discretionary trusts in which the extended family of Amjad Bseisu has a beneficial interest.

Substantial interests in shares

In accordance with Chapter 5 of the DTR, the shareholders listed on the following table have notified the Company of their interests in the Ordinary shares of the Company as at 4 April 2011.

Name	Number of Ordinary shares held	% of issued share capital held
Lundin family and associated entities	71,350,000	8.92
Ayman Asfari and family	44,282,114	5.54
Amjad Bseisu and family	31,175,613	3.90

Acquisitions

On 5 November 2010 the Company completed the acquisition of all the outstanding shares of Stratic Energy Corporation ('Stratic') through a plan of arrangement whereby Stratic shareholders received 0.089626 EnQuest Ordinary shares per Stratic share, which valued the Static shares at approximately US$54.2 million.

Annual General Meeting

The Company's first AGM will be held at Sofitel London St James Hotel, 6 Waterloo Place, London SW1Y 4AN on 25 May 2011. Formal notice of the AGM, including details of special business is set out in the Notice of AGM which accompanies this Annual Report and Accounts and is available on the Company's website at www.enquest.com.

Registrars

In connection with the Ordinary shares traded on the London Stock Exchange, the Company's share registrar is Capita Registrars. For the Ordinary shares traded on NASDAQ OMX Stockholm the Company's share registrar is Euroclear Sweden. Full details of both registrars can be found in the Company Information section on page 86.

Creditors' payment policy
It is the Company and Group's policy to settle all debts with creditors on a timely basis and in accordance with the terms of credit agreed with each supplier. Average creditor payment days for the year under review were approximately 38 days.

Political and charitable donations
The Company made charitable, social, community-related and political donations totalling US$71,145 during the year, which includes a political donation of US$13,300 to the Conservative Party.

Change of control agreements
The Company confirms that there are no significant agreements to which it is party that would take effect, alter or terminate upon a change of control of the Company following a takeover bid. See page 51 of the Remuneration Report for details of compensation which the Directors are entitled to in the event of a change of control.

On a change of control of the Company resulting in the termination or change in scope of works or duties, one employee is entitled to compensation of a sum equal to two times his/her annual basic salary as at the termination of employment.

Important events subsequent to the year end
Events since the balance sheet date are summarised in note 25 to the financial statements on page 79.

Directors' statement as to disclosure of information to auditors
The Directors who held office at the date of the approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Responsibility statements under the DTR
The Directors who held office at the date of the approval of the Directors' Report confirm that, to the best of their knowledge, the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and the Directors' Report and the Group Operating and Financial Review include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Audit and auditors
Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, Ernst & Young LLP be reappointed. Ernst & Young LLP has expressed their willingness to continue as auditors. An ordinary resolution to reappoint Ernst & Young LLP as auditors of the Company and authorising the Directors to set their remuneration will be proposed at the forthcoming AGM.

Financial risk and financial instruments
Information on financial risk management, including credit and liquidity risks and information about financial instruments, is set out in the Financial Review on pages 30 to 33 and the notes to the financial statements on pages 59 to 79 respectively.

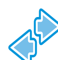
Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 10 to 37. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 30 to 33. In addition, note 24 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with 2P reserves of 88.5 MMboe. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Approved by the Board on 4 April 2011.

Paul Waters
Company Secretary



CORPORATE GOVERNANCE REPORT

The responsibility of the Board of Directors is to represent the Company's owners and ensure that Company's strategic objectives are properly realised and that all major business risks are actively monitored and managed. To this effect the Company is committed to achieving compliance with the principles and provisions set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 ('Combined Code') and appended to the Listing Rules and to ensuring that high standards of corporate governance are maintained. The Board considers that the Company is compliant with the Combined Code, other than as detailed below.

Set out below is a statement of how the Company applied the principles of the Combined Code for the year ended 31 December 2010.

The Board

The Board currently comprises the Chairman, three Executive Directors and four Non-Executive Directors. The Directors' biographies are set out on pages 38 and 39. No group of individuals dominate 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 in 2010.

In the opinion of the Board, Jock Lennox and Helmut Langanger, are fully independent for the purposes of the Combined Code. However, the other Non-Executive Directors, Alexandre Schneiter and Robin Pinchbeck, due to their association with Lundin Petroleum AB and Petrofac Limited, respectively, are not deemed to be independent for the purposes of the Combined Code.

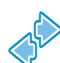
Notwithstanding the fact that Alexandre Schneiter and Robin Pinchbeck are not deemed independent for the purpose of the Combined Code, the other Directors, having given full consideration to this issue, agreed that their knowledge of the Company's business and the experience they bring to their roles, outweighed the resulting non-compliance with the Combined Code. The Board is also satisfied that it maintained a sufficient degree of independence throughout the year to enable it to discharge effectively and properly its obligations under the Combined Code.

In order to achieve full compliance with the Combined Code, it was stated in the Company's listing Prospectus dated 18 March 2010 that Alexandre Schneiter and Robin Pinchbeck would stand down as Non-Executive Directors before April 2012. As part of this process, Robin Pinchbeck will be retiring at the AGM on 25 May 2011 and the Board plans to appoint a new independent Non-Executive Director in the near future as replacement for Robin Pinchbeck.

All of the Directors are subject to election by shareholders at the first AGM after their appointment to the Board, so with the exception of Robin Pinchbeck, all the Directors will be seeking election by shareholders at the AGM to be held on 25 May 2011.

Helmut Langanger has been appointed the Senior Non-Executive Director. A key responsibility for the Senior Non-Executive Director is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman, Chief Executive or the Chief Financial Officer. His role is to evaluate the performance of the Chairman and address any concerns that might be raised by the shareholders that have not been resolved through normal channels.

The Board has a formal schedule of matters specifically reserved to it for decision, which was approved by the Board in March 2010. Its reserved matters include determination of the overall strategy of the Group, 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 the Company's financial statements, control and risk management systems.



The Board delegates the execution of its strategic objectives to the Executive Committee, which comprises the Executive Directors, Head of Business Development and the Head of Legal. Operational management of the Group on a day-to-day basis is managed by the Operational Committee, which comprises members of the Executive Committee, General Manager UKCS, asset managers and selected senior 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 for Directors, in furtherance of the duties, to take independent professional advice if necessary, at the Company's expense, up to a pre-determined limit.

During 2010, eight scheduled meetings of the Board were held, seven of which were held at the Company's registered office in London and one meeting held offsite. Details of attendance at each of those meetings, and at meetings of the Board Committees, are set out on page 47.

During the year, a number of other meetings took place to deal with specific matters that required to be considered at short notice, and in each case, notice was duly given to all the Directors. Any Director who is unable to attend scheduled or short-notice Board meetings in person is invited to join the meeting by video or telephone conferencing facilities, or is given the opportunity to be consulted and comment in advance of the meeting by telephone or in writing.

The formal agenda for each scheduled Board meeting is set by the Chairman in consultation with the Company Secretary and agreement from the Chief Executive. Formal minutes of all Board and committee meetings are circulated to all Directors prior to the next Board meeting and are considered for approval at that Board meeting. In addition, the Chief Executive is in frequent contact with the Non-Executive Directors between meetings in order to keep them updated with progress on the Group's business. The Chairman also meets the Non-Executive Directors informally, without any Executives present, on a regular basis to discuss matters in respect of the business.

The Board has in place a procedure for the consideration and authorisation of conflicts or possible conflicts with the Company's interests. In accordance with the Directors' interests provisions in the Companies Act 2006, all the Directors are required to submit details to the Company Secretary of any situations which may give rise to a conflict, or potential conflict, of interest. The Board monitors and reviews potential conflicts of interest on a regular basis.

Board committees

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee, each of which has formal Terms of Reference approved by the Board. The Terms of Reference for each of these committees satisfy the requirements of the Combined Code and are reviewed internally on an ongoing basis by the Board. Copies of the Terms of Reference are available on the Company's website.

The committees are provided with all necessary resources to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to the committees and minutes of all committee meetings are available to all Directors.

Set out below are reports from the Audit Committee, Remuneration Committee and Nomination Committee.

Audit Committee

The Audit Committee comprises two independent Non-Executive Directors and the Chairman. Currently, its members are Jock Lennox (Chairman), Dr James Buckee and Helmut Langanger. Dr Buckee is currently a member of the Audit Committee as the remaining Non-Executive Directors are not independent. This will be reviewed once one or more independent Non-Executive Directors are appointed in due course. Mr Lennox has recent and relevant financial experience; he is Audit Committee chairman of a number of public companies. No members of the Audit Committee have ongoing links with the Company's auditors, Ernst & Young LLP.

The main responsibilities of the Committee include:

- monitoring the integrity of the financial statements, including annual and interim reports and any other formal announcement relating to the Company's financial performance;
- considering the establishment of an internal audit function;
- reviewing the Company's internal control procedures and risk management systems;
- making recommendations to the Board 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 engages in numerous ad hoc discussions and in 2010 had two formal meetings to discharge its responsibilities as set out in its Terms of Reference. At the request of the Audit Committee, the Chief Financial Officer and a senior member of the finance department attended each of these meetings. The Chief Executive also attended both meetings as an observer, on being invited to do so by the Committee. In addition, the external auditors attended both meetings and received copies of all Audit Committee papers.

In fulfilling its responsibility to monitor the integrity of financial reports to shareholders, the Audit Committee reviewed the accounting principles, policies and practises adopted in the presentation of public financial information. The ultimate responsibility for reviewing and approving the interim and annual financial statements remains with the Board.

As part of the process when the Company became listed on the Main Market of the London Stock Exchange, the Board reviewed the need for an internal audit function, and concurred that the control systems in place together with management oversight were sufficient to highlight any areas of weakness in the financial reporting systems, so no internal audit function was established. At the end of 2010, the Audit Committee reviewed the need for an internal audit function and agreed to appoint Deloitte LLP to provide outsourced internal audit services to the Company.

The Audit Committee reviewed the Group's procedures for staff to raise concerns in confidence about possible financial reporting or other misconduct. The Committee considered any concerns raised, how these were investigated and follow-up action taken.

Remuneration Committee

The Remuneration Committee is chaired by Mr Langanger and its other appointees are Dr Buckee and Mr Lennox. The Chief Executive may also be invited to attend meetings as and when deemed appropriate.

The main responsibilities of the Committee include:

> setting the remuneration policy for the Chairman, Executive Directors and senior executives;

> 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 Combined Code in this respect.

The Remuneration Committee engages in numerous ad hoc discussions and in 2010 had four formal meetings to discharge its responsibilities as set out in its Terms of Reference.

Further information on the Committee can be found in the Remuneration Report on pages 49 to 52.

Nomination Committee

The Nomination Committee currently comprises Mr Bseisu, Mr Langanger, Mr Lennox and Dr Buckee who is the Chairman.

The Nomination Committee assists the Board in its responsibilities relating to the composition of the Board, its size and structure whilst also evaluating the balance of skills, knowledge and experience of the Directors. The composition of the Board is also taken into account and it is the responsibility of the Committee to identify and nominate candidates for approval by the Board to fill vacancies, appoint new Directors to replace those retiring and make the appropriate recommendations to the Board. The Committee meets at least twice a year and the Terms of Reference of the Committee are to be found on the Company's website.

The main responsibilities of the Committee include:

> 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;

> formalising succession planning and the process for new Director appointments;

> identifying, evaluating and recommending candidates for appointment or reappointment as Directors or Company Secretary, taking into account the balance of knowledge, skills and experience required to serve the Board; and

> reviewing the outside directorships/commitments of Non-Executive Directors.

The Nomination Committee engages in numerous ad hoc discussions and in 2010 had two formal meetings to discharge its responsibilities as set out in its Terms of Reference. The Committee ensures, amongst other things, that there is a formal, rigorous and transparent procedure for the appointment of new Directors.

Induction and training

New Directors receive induction on their appointment to the Board covering the activities of the Group and its key business and financial risks, the Terms of Reference of the Board and its committees and the latest financial information about the Group.

The Chairman ensures that Directors update their skills, knowledge and familiarity with the Company required to fulfil their roles on the Board and on Board committees. Ongoing training is provided as necessary and includes updates from the Company Secretary on changes to the Listing Rules, requirements under the Companies Act and other regulatory matters. Directors may consult with the Company Secretary at any time on matters related to their role on the Board.

Directors' attendance at Board and Board Committee meetings

The table below sets out the attendance record of each Director at scheduled Board and Board Committee meetings during 2010:

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Meetings held in 2010	8	2	4	2
Executive Directors				
Amjad Bseisu	8	n/a	n/a	2
Nigel Hares	8	n/a	n/a	n/a
Jonathan Swinney	8	n/a	n/a	n/a
Non-Executive Directors				
Dr James Buckee	8	2	4	2
Helmut Langanger	8	2	4	2
Jock Lennox	8	2	4	2
Robin Pinchbeck	8	n/a	n/a	n/a
Alexandre Schneiter	8	n/a	n/a	n/a

Note:
n/a means not applicable where a Director is not a member of the committee.

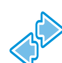
Board performance evaluation

An evaluation of the performance of the Board, its committees, the individual Directors and the Chairman, was conducted at the end of 2010 by the Chairman and the results of the review were then fed back to the Board as a whole.

Following the evaluation, the Directors concluded that the Board and its committee operate effectively and also consider that each Director is contributing effectively and demonstrates commitment to the role.

Internal controls

The Company's system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute reassurance against misstatement or loss. The Board will continue to review and improve the system of internal controls.



CORPORATE GOVERNANCE REPORT
CONTINUED

The Board recognises the need for effective internal controls and for evaluating and managing the risks of the Company. Such matters are brought to the attention of the Board at its formal Board meetings or ad hoc discussions.

High level controls in operation include:
- review of management accounts with comparison of actual performance against prior periods and budget;
- approval of orders, authorisation of invoices and two signatures required to make a transfer from the principal bank accounts;
- recognition of all control accounts;
- prior approval by the Board for major investments; and
- segregation of duties between relevant functions and departments.

The Board is aware of the need to conduct regular risk assessments to identify any deficiencies in the controls currently operating over all aspects of the Company. A formal risk assessment was conducted by the Board in 2010 on internal controls to cover material contracts both financial and operational and risk management systems.

Financial reporting procedures were reviewed as part of the process to become listed on the Main Market of the London Stock Exchange and a full Board memorandum was prepared. Having considered the findings, the Board were able to confirm that the financial reporting procedures established provided them with a reasonable basis on which to make proper judgements on the financial position and prospects of the Company on an ongoing basis.

Details of principal risk and uncertainties are discussed in the Business Review on pages 18 and 19.

The Company has established a Code of Conduct policy which all employees and contractors are required to comply with. This policy includes the procedures for whistle-blowing whereby employees can raise concerns in confidence about possible wrong doing. This matter is on the agenda at Audit Committee meetings to review and take action as required.

Auditor independence

The Audit Committee and Board recognise the importance and objectivity of the Group's external auditors, Ernst & Young LLP, when performing their role in the Company's reporting to shareholders. The external auditors are expected to provide the Audit Committee with information about policies and processes for maintaining independence and monitoring compliance with current regulatory requirements, including those regarding the rotation of audit partners and staff.

The overall performance, independence and objectivity of the auditors is reviewed regularly by the Audit Committee. The Audit Committee has a policy in respect of the provision of non-audit services to the Company by the external auditor. Fees billed by Ernst & Young LLP, during 2010 amounted to US$369,000 for audit related services and US$794,000 for non-audit services.

Communication with shareholders

Communications with shareholders are given high priority by the Board. EnQuest will send its maiden 2010 Annual Report and Accounts to all registered shareholders. In order to ensure that the Board develop a strong dialogue with shareholders, during 2010, the Executive Directors and senior management met with institutional investors in London and across the UK as well as other European and North American cities. These roadshows, combined with the attendance of various Directors and senior management at several oil and gas sector conferences, provided for comprehensive and engaging dialogue with shareholders.

The Company issues its results and other news releases promptly and publishes them on the Company's website at www.enquest.com. Other corporate information issued during the year is also available on the website. Shareholders and other interested parties can subscribe to receive news updates by email by registering online on the website.

At the 2011 AGM, a business presentation will be provided for the benefit of shareholders. The Chairman will aim to ensure that the respective Chairmen of the Audit and Remuneration Committees attend the AGM to answer questions and that the other Directors also attend.

Compliance statement

As the Company is listed on the London Stock Exchange, it is subject to the Combined Code, which is available from the Financial Reporting Council (www.frc.org.uk).

Since 6 April 2010, being the date that the Company's Ordinary shares became listed on the London Stock Exchange, to the end of 2010, the Company complied fully with the provisions set out in Section 1 of the Combined Code with the exception of:

A3.2 Less than half the Board, excluding the Chairman, comprise independent Non-Executive Directors.

C3.1 The Chairman is a member of the Audit Committee.

On behalf of the Board

Dr James Buckee
Chairman of the Board
4 April 2011

REMUNERATION REPORT

Introduction

This report has been prepared with reference to the UK Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'regulations'). The report also meets the relevant requirements of the Financial Services Authority's Listing Rules and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration.

A resolution to approve the report will be put to shareholders at the AGM on 25 May 2011.

Information not subject to audit

Remuneration Committee

The Remuneration Committee is a formal Committee of the Board, and has powers delegated to it under the Company's Articles. Its Terms of Reference were formally adopted by the Board on 1 March 2010. The primary purposes of the Remuneration Committee, as set out in its Terms of Reference, are to:

- recommend to the Board the broad policy in respect of senior management remuneration;
- ensure that the levels of remuneration are appropriate in order to encourage enhanced performance;
- approve the design and set the targets for any performance-related pay scheme;
- review the design of all share incentive plans before approval by the Board and shareholders, to monitor the application of the rules of such schemes and the overall aggregate amount of such awards; and
- set the remuneration of the Chairman, Executive Directors and senior management including annual cash bonus and share incentive arrangements.

The members of the Remuneration Committee during the year and up until the date of this Report were Helmut Langanger (Chairman), Dr James Buckee and Jock Lennox. Helmut Langanger and Jock Lennox are considered by the Board to be independent as explained in the Corporate Governance Report on pages 45 to 48.

Remuneration policy – overview

EnQuest's remuneration policy for 2010 and subsequent financial years is designed to encourage behaviour and performance among Executive Directors and senior management which the Remuneration Committee believes is in the best interest of shareholders.

A key objective of the Remuneration Committee is to establish a level of remuneration which is sufficient to attract, retain and motivate the Executive Directors and senior management and to align their remuneration with the achievement of the Company's strategic, business and financial objectives and thereby enhance shareholder value.

As part of the preparation for the Company becoming listed on the Main Market of the London Stock Exchange, the Remuneration Committee first met in March 2010 to determine the remuneration programme for the Executive Directors and senior management going forward, and took advice from Deloitte LLP to provide independent guidance on setting the remuneration framework for the year. Deloitte LLP also provide internal audit and tax advisory services to the Company. The Company's legal advisers, Ashurst LLP, also provided assistance to the Committee in respect of the Company's share incentive arrangements. Deloitte LLP and Ashurst LLP were not appointed by the Remuneration Committee. The proposed remuneration framework developed with Deloitte LLP was based on the following principles:

- the remuneration framework should reflect the growth focus of EnQuest and provide emphasis on the long-term horizon;
- total remuneration should be competitive versus compensation benchmarks of UK oil and gas companies of a similar size to EnQuest; and
- the remuneration structure should be consistent with UK corporate governance principles and best practice.

Based on independent advice and guidance provided by Deloitte LLP, the Remuneration Committee approved its remuneration framework for the Executive Directors and senior management based on the following criteria:

- basic salaries would be median or below benchmarked salaries against UK oil and gas companies of a similar size to EnQuest; and
- the variable elements of remuneration would be structured so that individuals can achieve total remuneration that is upper quartile subject to achievement of challenging performance standards.

The Remuneration Committee believes establishing a remuneration framework which sets the fixed elements at median or below and provides incentives capable of delivering upper quartile pay for delivery of superior performance is the most effective way in which to ensure that the Executive Directors and senior management are incentivised to deliver the Company's strategic goals and thus deliver long-term shareholder value.

The Company's annual remuneration programme currently consists of three primary components: base salary and benefits, annual performance pay, and long-term incentive awards granted under the Company's current share incentive plans.

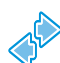
The amount of base salary, annual performance pay and long-term incentive awards granted to the Executive Directors during 2010 are set out in the remuneration table on page 52.

Reward component

Base salary and benefits

Base salary and benefits comprise a portion of the total remuneration; whilst annual performance pay and long-term incentives represent a significant component of total remuneration. Remuneration that is 'at risk' means remuneration that may or may not be paid to the Executive Directors is dependent on whether the individual is able to meet or exceed their applicable performance targets together with achievement of corporate performance targets. The 'at risk' element of total remuneration is used to promote long-term shareholder value and does not represent remuneration that is 'at risk' in the short-term. The greater the Executive Directors' impact is upon driving the long-term business objectives, the higher the risk/reward portion of the remuneration.

The base salary and benefits of the Executive Directors are reviewed annually by the Remuneration Committee and any changes take effect from 1 January each year. In conducting the base salary review, the Committee takes into consideration factors such as current competitive market conditions and particular skills, such as leadership ability and management effectiveness, experience, responsibility and proven or expected performance of the particular individual. The Committee obtains information regarding competitive market conditions from our management and external benchmarking agencies, as required.



The Chief Executive (with the assistance of the Chairman of the Remuneration Committee) evaluates annually the performance of each of the Executive Directors and direct reports and recommends adjustments to base salary which are reviewed by the Remuneration Committee for approval. Compensation of the Chief Executive is reviewed by the Chairman of the Remuneration Committee and subsequently approved by the Committee.

For 2010, the basic salaries for the Executive Directors were set at £375,000 for Amjad Bseisu, £285,000 for Nigel Hares and £220,000 for Jonathan Swinney. The Committee carried out a review of salaries for 2011, and agreed that these would be frozen at 2010 levels.

The Company provides a defined contribution pension plan and benefits such as car allowance for certain employees below Executive Director level. In lieu of such benefits for the Executive Directors, the Company pays an allowance of £30,000 per annum (£40,000 for the Chief Executive).

Annual performance pay

The discretionary performance pay scheme applies to all employees and Executive Directors and is based on individual and Company performance against objectives. Each measure is given a respective weighting, with the Executive Directors receiving 80% of performance pay based on Company performance targets and 20% based on individual performance targets. The Executive Directors' individual performance is measured through personal performance contracts which were set and approved by the Remuneration Committee at the time when the Company became listed on the Main Market of the London Stock Exchange in April 2010, and then reviewed at the end of 2010. The Company's performance objectives are based on annually defined Key Performance Indicators ('KPIs'). The Board set the Company's KPIs at the time when the Company became listed on the Main Market of the London Stock Exchange, which required the achievement of operational targets, financial performance, HSE standards and portfolio growth over the remainder of the 2010 financial year.

The choice of the Company performance targets for 2010 and their respective weightings, reflects the Committee's belief that any short-term performance pay should be tied both to the overall performance of the Company and the individual's performance.

The maximum level of performance pay for the Executive Directors is set at 100% of base salary, with the ability to increase this to 200% of base salary for outstanding individual and Company performance. Part of the performance pay will be paid in cash and part in shares which vest after two years, subject to continued employment. The actual level of performance pay awarded to the Executive Directors for performance in 2010 is shown in the remuneration table on page 52.

The maximum level of performance pay for senior management was set between 30% to 60% of base salary, with the ability to increase this to between 60% to 120% of base salary for outstanding individual and Company performance. Senior management, together with all employees who receive performance pay, may be eligible to receive non-performance based matching shares, determined by reference to the number of shares acquired using the annual performance pay.

Long-term share incentives

In order to encourage Executive Directors and selected senior management to deliver superior levels of long-term performance for the benefit of shareholders, the Remuneration Committee's policy is to award these individuals with share incentives under the long-term incentive plan. The current arrangement is the EnQuest PLC Performance Share Plan 2010 ('2010 PSP'), which was approved at a special meeting of shareholders held on 18 March 2010. At the same meeting, shareholders approved the establishment of the EnQuest PLC Restricted Share Plan 2010 ('2010 RSP') and the EnQuest PLC Deferred Bonus Share Plan 2010 ('2010 DBSP').

2010 RSP

The 2010 RSP was established for use at the time when the Company became listed on the Main Market of the London Stock Exchange in April 2010 in order to facilitate the deferral of IPO bonuses and to grant retention focused awards. The Remuneration Committee granted an aggregate of 5,809,675 share awards to Executive Directors and selected employees on 1 April 2010 and 19 April 2010. Other than being subject to continued employment, the RSP awards have no performance targets, and vest in tranches over two, three and four years from the date of grant, save in relation to Nigel Hares' awards of which one-quarter will vest on the first anniversary of the date of grant. Going forward, the 2010 RSP will be available as a retention tool for selected employees below Executive Director level, whereby awards may be made to selected individuals who join the Company part way through the year, having left accrued benefits with a previous employer. In this regard, the Remuneration Committee granted an aggregate of 699,856 share awards to selected senior employees on 13 October 2010.

2010 DBSP

Under the 2010 DBSP, employees, below Executive Director level, are invited to defer a proportion of their annual cash bonus into Company shares. Under the plan, the shares which are acquired with a participant's cash bonus are called 'Invested Shares'. Following such an investment, the Company will generally grant the participant an additional award over a number of shares being a specified ratio to the number of Invested Shares and these awards are called 'Matching Shares'. The Remuneration Committee granted an aggregate of 195,365 Matching Shares on 19 April 2010, which were awarded to participants on the basis of a 1:1 ratio to the Invested Shares. No further awards were granted under the 2010 DBSP during the year.

2010 PSP

The 2010 PSP enables Executive Directors and selected senior employees to be granted conditional awards over Ordinary shares, the vesting of which is normally dependent on both continued employment with the Company and the extent to which pre-determined performance conditions are met over a specified period of three years. The scheme is intended to incentivise the participants to create shareholder value whilst retaining due focus on the underlying financial performance of the Company and to align their interests closely with those of shareholders.

The value of Ordinary shares awards to a participant under the 2010 PSP in any financial year is subject to a limit of 200% of base salary, although a 300% of salary limit can be awarded to an individual by the Remuneration Committee in exceptional circumstances.

No awards under the 2010 PSP have been made as at the date of this Report.

Non-Executive Directors
The remuneration of each of the Non-Executive Directors (other than the Chairman) is determined by the Chairman and the Executive members of the Board within limits set out in the Articles and having taken independent advice on appropriate levels. The remuneration of the Chairman is determined by the Committee (in his absence), again based on independent advice. The Company's policy is to set levels of fees so as to ensure that they are sufficient to attract experienced individuals and reflect the increased responsibilities of the Non-Executive Directors.

The Non-Executive Directors' annual fees for 2010 were £200,000 for Dr James Buckee and £45,000 for each of the other Non-Executive Directors. In addition to this, an annual fee of £8,000 is payable to Jock Lennox and Helmut Langanger for their roles as Chairman of the Audit and Remuneration Committee respectively. Actual fees paid for the year ended 31 December 2010 are shown in the remuneration table on page 52.

As stated in the Company's listing Prospectus dated 18 March 2010, Dr James Buckee received a one-off award over 1,416,880 Ordinary shares on 1 April 2010 in recognition of his appointment as Chairman of the Board, and the shares will vest on the third, fourth and fifth anniversaries of the date of grant.

Non-Executive Directors cannot participate in the Company's share incentive arrangements and are not entitled to a bonus or pension contribution.

Service contracts/letters of appointment
The Company's policy is for all Executive Directors to have contracts of service which can be terminated by either the Director concerned or the Company on giving 12 months' notice of termination. In the event of termination by the Company (other than as a result of a change of control), the Executive Directors would be entitled to loss of salary and cash benefit allowance for the notice period. Depending on the circumstances of termination, the Executive Directors may be entitled, or the Remuneration Committee may exercise its discretion to allow the Executive Directors, to receive a pro-rated proportion of their outstanding awards under the long-term share incentive plans.

On a change of control of the Company resulting in the termination of an Executive Director's employment, the Executive Director is entitled to compensation of a sum equal to his/her annual basic salary as at the date of termination of employment.

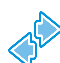
The Non-Executive Directors do not have service contracts but their terms are set out in a letter of appointment. Their terms of appointment may be terminated by each party giving three months notice in writing. The letters of appointment set out the time commitment expected by the Company and the Board is satisfied that each of the Non-Executive Directors commits sufficient time to fulfil their duties as a Director of the Company.

The Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection on request and will be available for inspection before and during the AGM to be held on 25 May 2011.

Details of the service contracts and letters of appointment of the current Directors of the Company are given in the tables below:

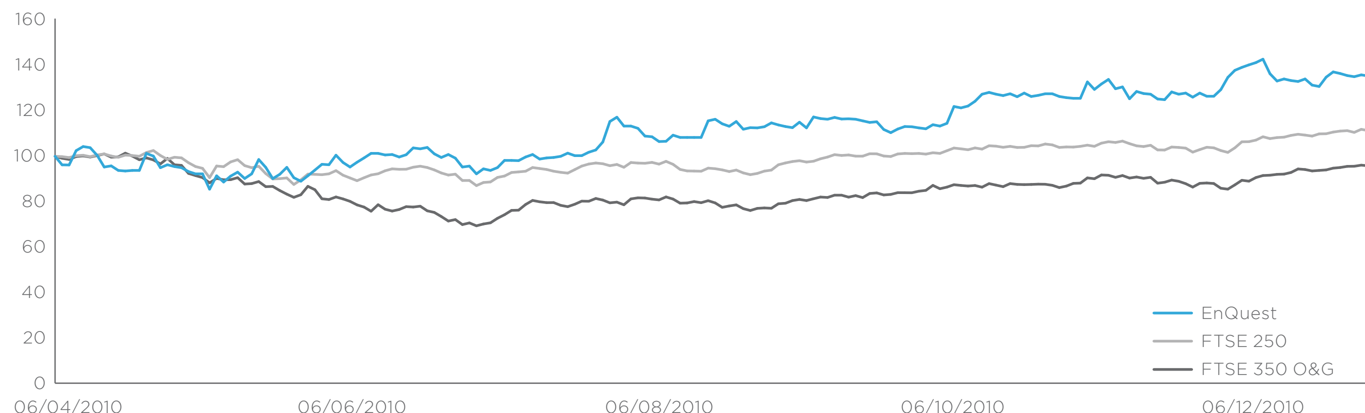
	Effective date	Notice period	Initial term of appointment	Subsequent term of appointment
Executive service contacts				
Amjad Bseisu	6 April 2010	12 months	n/a	n/a
Nigel Hares	6 April 2010	12 months	n/a	n/a
Jonathan Swinney	6 April 2010	12 months	n/a	n/a

	Date of letter of appointment	Notice period	Initial term of appointment	Subsequent term of appointment
Non-Executive letters of appointment				
Dr James Buckee	8 March 2010	3 months	2011 AGM	2 years
Helmut Langanger	9 March 2010	3 months	2011 AGM	3 years
Jock Lennox	2 March 2010	3 months	2011 AGM	3 years
Robin Pinchbeck	4 March 2010	3 months	2011 AGM	1 year
Alexandre Schneiter	4 March 2010	3 months	2011 AGM	1 year



Performance graph

The following graph shows the Company's share price since trading of the Company's shares began on the London Stock Exchange on 6 April 2010 against the FTSE 250 index and FTSE 350 Oil & Gas index.



Information subject to audit

Directors' remuneration for the year ended 31 December 2010

	Salary[1] £	Cash allowance benefits[2] £	Performance pay[3] £	Fees[4] £	Total 2010 £
Executive					
Amjad Bseisu	**277,404**	**30,177**	**600,000**	**–**	**907,581**
Nigel Hares	**210,826**	**24,406**	**456,000**	**–**	**691,232**
Jonathan Swinney	**162,743**	**23,956**	**347,600**	**–**	**534,299**
Non-Executive					
Dr James Buckee[5]	**–**	**–**	**–**	**147,222**	**147,222**
Helmut Langanger	**–**	**–**	**–**	**39,013**	**39,013**
Jock Lennox	**–**	**–**	**–**	**39,013**	**39,013**
Robin Pinchbeck	**–**	**–**	**–**	**33,125**	**33,125**
Alexandre Schneiter	**–**	**–**	**–**	**33,125**	**33,125**
Total	**650,973**	**78,539**	**1,403,600**	**291,498**	**2,424,610**

Notes:
1 Messrs Bseisu, Hares and Swinney's employment with the Company became effective on 6 April 2010 following the Company's demerger from Petrofac Limited and Lundin Petroleum AB and when the Company's Ordinary shares were admitted to listing on the Official List and to trading on the Main Market of the London Stock Exchange. Their salaries relate to the period from 6 April 2010 to 31 December 2010.
2 Cash allowance in lieu of pension and other benefits. None of the Directors are eligible to receive pension contributions from the Company. The Directors receive the non-cash benefit of private medical insurance cover as well.
3 Performance pay was based on 2010 base salary levels and payment was made in respect of the full financial year. One-third of the performance pay will be paid in EnQuest PLC shares, deferred for two years and subject to continued employment.
4 The fees payable to the Non-Executive Directors became effective on 6 April 2010, when the Company's Ordinary shares were admitted to listing on the Official List and to trading on the Main Market of the London Stock Exchange. The fees relate to the period from 6 April 2010 to 31 December 2010.
5 Dr James Buckee received 50% of his 2010 fees as a cash payment in March 2011.

Directors' interests in restricted share plan awards as at 31 December 2010

Director	Granted during year	Awards vested	At December 2010	Vesting periods	Expiry date
Amjad Bseisu	1,609,063	–	1,609,063	1 April 2012 – 1 April 2014	1 April 2020
	591,324	–	591,324	19 April 2012 – 19 April 2014	19 April 2020
Nigel Hares	268,177	–	268,177	1 April 2011	1 April 2020
	804,532	–	804,532	1 April 2012 – 1 April 2014	1 April 2020
Jonathan Swinney	536,354	–	536,354	1 April 2012 – 1 April 2014	1 April 2020
	163,387	–	163,387	19 April 2012 – 19 April 2014	19 April 2020

On behalf of the Board

Helmut Langanger
Chairman of the Remuneration Committee
4 April 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE GROUP FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements the Directors are required to:

> select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
> present information, including accounting policies, in a manner that provides relevant reliable, comparable and understandable information;
> provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
> state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
> make judgements and estimates that are reasonable and prudent.

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

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT AND ACCOUNTS TO THE MEMBERS OF ENQUEST PLC (REGISTERED NUMBER: 07140891)

We have audited the consolidated financial statements of EnQuest PLC for the year ended 31 December 2010 which comprise the Group statement of comprehensive income, Group balance sheet, the Group statement of changes in equity, the Group statement of cash flow and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. 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.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities in respect of the Group financial statements set out on page 53, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the consolidated financial statements:

> give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
> have been properly prepared in accordance with IFRS as adopted by the European Union; and
> have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

> 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.

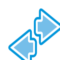
Under the Listing Rules we are required to review:

> the Directors' statement, set out on page 44, in relation to going concern;
> the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
> certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of EnQuest PLC for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ernst & Young LLP
Gary Donald (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
4 April 2011



GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 Business performance US$'000	2010 Exceptional items and depletion of fair value uplift (note 4) US$'000	2010 Reported in year US$'000	2009 US$'000
Revenue	5(a)	**583,468**	**–**	**583,468**	234,017
Cost of sales	5(b)	**(384,485)**	**(16,319)**	**(400,804)**	(193,146)
Gross profit/(loss)		**198,983**	**(16,319)**	**182,664**	40,871
Exploration and evaluation expenses	5(c)	**(22,987)**	**(57,870)**	**(80,857)**	(6,149)
Impairment of oil and gas assets		**–**	**(2,121)**	**(2,121)**	–
Well abandonment expenses		**–**	**(8,194)**	**(8,194)**	–
General and administration expenses	5(d)	**(13,770)**	**(13,432)**	**(27,202)**	(135)
Other income	5(e)	**7,024**	**–**	**7,024**	3,932
Other expenses	5(f)	**(5,526)**	**–**	**(5,526)**	(21,885)
Profit/(loss) from operations before tax and finance income/(costs)		**163,724**	**(97,936)**	**65,788**	16,634
Finance costs	6	**(11,187)**	**–**	**(11,187)**	(6,444)
Finance income	6	**1,174**	**–**	**1,174**	827
Profit/(loss) before tax		**153,711**	**(97,936)**	**55,775**	11,017
Income tax	7	**(78,647)**	**49,948**	**(28,699)**	(3,025)
Profit/(loss) for the year attributable to owners of the parent		**75,064**	**(47,988)**	**27,076**	7,992
Other comprehensive income for the year, after tax:					
Cash flow hedges				**–**	18,122
Total comprehensive income for the year, attributable to owners of the parent				**27,076**	26,114
Earnings Per Share	8			**US$**	US$
Basic				**0.040**	0.019
Diluted				**0.040**	0.019

The comparative statement of comprehensive income has been presented as a single column as there were no exceptional items or depletion of fair value uplifts reported in the year ended 31 December 2009.

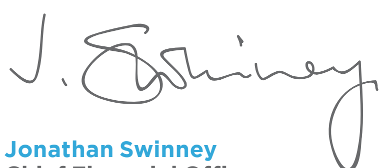
The attached notes 1 to 26 form part of these Group financial statements.

GROUP BALANCE SHEET
AS AT 31 DECEMBER 2010

	Notes	2010 US$'000	2009 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**1,136,449**	518,558
Goodwill	12	**101,918**	–
Intangible oil and gas assets	13	**12,302**	71,641
Asset held for sale	13	**18,665**	–
Loan receivable from related party	23	**–**	21,443
Deferred tax assets	7	**8,871**	156
		1,278,205	611,798
Current assets			
Inventories	14	**12,404**	1,297
Trade and other receivables	15	**107,543**	35,782
Due from related parties	23	**–**	552
Cash and cash equivalents	16	**41,395**	7,893
		161,342	45,524
TOTAL ASSETS		**1,439,547**	657,322
EQUITY AND LIABILITIES			
Equity			
Share capital	17	**113,174**	32,164
Merger reserve		**662,855**	50,785
Other reserves		**–**	83
Share-based payment reserve		**2,540**	–
Retained earnings		**104,327**	77,168
TOTAL EQUITY		**882,896**	160,200
Non-current liabilities			
Loans and borrowings	19	**–**	156,000
Provisions	20	**140,108**	53,198
Deferred tax liabilities	7	**292,021**	252,483
		432,129	461,681
Current liabilities			
Trade and other payables	21	**116,916**	33,326
Due to related parties	23	**–**	497
Income tax payable		**7,606**	1,618
		124,522	35,441
TOTAL LIABILITIES		**556,651**	497,122
TOTAL EQUITY AND LIABILITIES		**1,439,547**	657,322

The attached notes 1 to 26 form part of these Group financial statements.

The financial statements on pages 55 to 79 were approved by the Board of Directors on 4 April 2011 and signed on its behalf by:



Jonathan Swinney
Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital US$'000	Merger reserve US$'000	Cash flow hedge reserve US$'000	Other reserves US$'000	Share-based payments reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2009	32,164	50,785	(18,122)	847	–	68,412	134,086
Profit for the year	–	–	–	–	–	7,992	7,992
Other comprehensive income for the year	–	–	18,122	–	–	–	18,122
Total comprehensive income for the year	–	–	18,122	–	–	7,992	26,114
Share option programme transfer to retained earnings	–	–	–	(764)	–	764	–
At 31 December 2009	**32,164**	**50,785**	**–**	**83**	**–**	**77,168**	**160,200**
Total comprehensive income for the year: profit for the year	–	–	–	–	–	27,076	27,076
Issue of Ordinary shares	80,480	486,850	–	–	–	–	567,330
Capital contribution on assignment of debt on de-merger	–	125,220	–	–	–	–	125,220
Issue of shares to Employee Benefit Trust	530	–	–	–	(530)	–	–
Share-based payment charge	–	–	–	–	3,070	–	3,070
Share option programme transfer to retained earnings	–	–	–	(83)	–	83	–
At 31 December 2010	**113,174**	**662,855**	**–**	**–**	**2,540**	**104,327**	**882,896**

The attached notes 1 to 26 form part of these Group financial statements.

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 US$'000	2009 US$'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	**55,775**	11,017
Depreciation	**845**	642
Depletion	**177,185**	51,778
Exploration costs written off	**80,857**	6,149
Impairment of oil and gas assets	**2,121**	–
Share-based payment charge	**3,070**	–
Long-term incentive plan	**717**	608
Unwinding of discount on decommissioning provisions	**5,196**	2,916
Unrealised exchange losses	**164**	2,535
Net finance costs	**4,817**	2,272
Operating profit before working capital changes	**330,747**	77,917
Trade and other receivables	**8,532**	10,005
Due from related parties	**552**	(503)
Inventories	**442**	(174)
Trade and other payables	**(72,038)**	(24,860)
Due to related parties	**(497)**	(2,476)
Cash generated from operations	**267,738**	59,909
Long-term incentive plan	**(1,036)**	(228)
Income taxes paid	**(4,093)**	(1,448)
Net cash flows from operating activities	**262,609**	58,233
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(137,494)**	(63,784)
Purchase of intangible oil and gas assets	**(17,374)**	(2,341)
Acquisition of subsidiaries – cash	**21,556**	–
Interest received	**35**	–
Net cash flows used in investing activities	**(133,277)**	(66,125)
FINANCING ACTIVITIES		
Long-term receivables repaid	**-**	29,072
Repayment of loans and borrowings	**(86,251)**	(15,000)
Interest paid	**(3,393)**	(2,794)
Other finance costs paid	**(5,030)**	–
Net cash flows (used in)/generated from financing activities	**(94,674)**	11,278
NET INCREASE IN CASH AND CASH EQUIVALENTS	**34,658**	3,386
Net foreign exchange on cash and cash equivalents	**(1,156)**	981
Cash and cash equivalents at 1 January	**7,893**	3,526
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**41,395**	7,893

The attached notes 1 to 26 form part of these Group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. Corporate information

EnQuest PLC ('EnQuest' or the 'Company') is a limited liability Company registered in England and is listed on the London Stock Exchange and Stockholm NASDAQ OMX market.

The Group's principal activities are the exploration for, and extraction and production of hydrocarbons in the UK Continental Shelf.

The Company was incorporated on 29 January 2010 as a holding Company to effect a business combination between Lundin North Sea BV ('LNS') and Petrofac Energy Developments Limited ('PEDL').

On 5 April 2010 the Company acquired 100% of the voting shares of PEDL and on 6 April 2010 acquired 100% of the voting shares of LNS. Both acquisitions were satisfied by the allotment and issuance of Ordinary shares in the Company.

On 6 April 2010, following completion of the PEDL and LNS acquisitions, the Company was admitted to the Official List and to unconditional trading on the main market for listed securities of the London Stock Exchange. On 9 April 2010, the Company was admitted to unconditional trading on the Stockholm NASDAQ OMX market, as a secondary listing.

The Group's financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 4 April 2011.

A listing of the principal Group companies is contained in note 26 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 2010 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 2010.

The Group financial information has been prepared on a historical cost basis. The presentation currency of the Group financial information is United States dollars and all values in the Group financial information are rounded to the nearest thousand (US$'000) except where otherwise stated.

Going concern concept

The Directors' assessment of going concern concludes that the use of the going concern basis is appropriate because there are no material uncertainties that may cast significant doubt about the ability of the Group to continue as a going concern.

Group formation

The combination of LNS with EnQuest has been accounted for as a capital restructuring under the pooling of interests method. The combination of PEDL with LNS has been accounted for using the acquisition method, with LNS identified as the acquirer.

The approach adopted has a number of consequences including that:

- the Group's financial statements are prepared on the basis that EnQuest and LNS had always been combined, with the results of LNS being included for the year ended 31 December 2010 and EnQuest results being included from its incorporation date of 29 January 2010; comparative data for the statement of comprehensive income within these Group financial statements only relates to LNS as EnQuest was not incorporated in the comparative period;
- the Group's equity reflects the capital restructuring of EnQuest and LNS at the beginning of the comparative period and LNS's retained earnings carry forward within Group equity together with EnQuest's retained earnings;
- the carrying value of LNS net assets are unadjusted for the combination with EnQuest under the pooling of interests method; no goodwill arises as a result of the combination of LNS with EnQuest;
- the additional share premium resulting from capitalisation of LNS's long-term loans payable is eliminated by transfer to the Group merger reserve;
- the consideration for the acquisition of PEDL is derived from the market value of EnQuest Ordinary shares issued to effect the acquisition;
- the identifiable net assets of PEDL are measured at fair value at the date of the acquisition; and
- the Group merger reserve represents the difference between the market value of shares issued to effect the business combinations less the nominal value of shares issued; and consolidation adjustments which arise under the application of the pooling of interests method.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the sole right to exercise control over the operations and govern the financial policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing the Group's control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

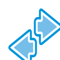
Intercompany profits, transactions and balances are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Unincorporated jointly controlled assets

Oil and gas operations are conducted by the Group as co-licensees in unincorporated joint ventures with other companies. The Group's financial statements reflect the relevant proportions of production, capital costs, operating costs and current assets and liabilities of the joint venture applicable to the Group's interests. The Group's current joint venture interests are detailed on page 3.

Business combinations

Business combinations are accounted for using the acquisition method. 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. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. 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.



2. Summary of significant accounting policies (continued)

New standards and interpretations

The Group has adopted new and revised IFRS that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2010. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

IFRS 2 Share-based Payment (Revised)
The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for Group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010, the amendment did not have any impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after 1 January 2010. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. The Group adopted this revised standard as of 1 January 2010. Retrospective application has been applied to 2009 equity comparatives where appropriate, however there is no impact on the financial position or performance of the Group for the year ended 31 December 2009.

IAS 27 (Amended) is effective for annual periods beginning on or after 1 July 2009 and prescribes the accounting treatment in respect of a change in ownership interest in a subsidiary, allocation of losses incurred by a subsidiary between controlling and non-controlling interests and accounting for a loss of interest in a subsidiary. This may affect the Group where there is a change in ownership interest in any of its subsidiaries. The amendment did not have any impact on the financial position or performance of the Group for the year ended 31 December 2009.

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 intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in mid-2011. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. However, the Group determined that the effect shall be quantified in conjunction with the other phases when issued to present a comprehensive picture.

Improvements to IFRS's (Issued in May 2010)
The IASB issued improvements to IFRS, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

The Group does not expect that adoption of the amendments will have any impact on its financial position or performance.

Critical accounting estimates and judgements

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

Estimates in oil and gas reserves
The business of the Group is the exploration for, development of and production of oil and gas reserves. Estimates of oil and gas reserves are used in the calculations for impairment tests and accounting for depletion and decommissioning. Changes in estimates of oil and gas reserves resulting in different future production profiles will affect the discounted cash flows used in impairment testing, the anticipated date of decommissioning and the depletion charges in accordance with the unit-of-production method.

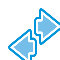
Estimates in impairment of assets (excluding goodwill)
For details of policy see Impairment of assets (excluding goodwill) and refer to the further economic assumptions above within Estimates in oil and gas reserves.

Decommissioning provision
Amounts used in recording a provision for decommissioning are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice. To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of decommissioning provisions are reviewed on a regular basis.

The effects of changes in estimates do not give rise to prior year adjustments and are dealt with prospectively. While the Group uses its best estimates and judgement, actual results could differ from these estimates.

In estimating decommissioning provisions, the Group applies an annual inflation rate of 2% and an annual discount rate of 5%.

Estimates in impairment of goodwill
Determination of whether goodwill has suffered any impairment requires an estimation of the value in use of the cash-generating units ('CGU') to which goodwill has been allocated. The present value calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate. In calculating the present value in use of the CGU, the Group has applied an oil price assumption of US$85 per barrel, escalated at 2% per annum and discounted at a pre-tax rate of 19%.



2. Summary of significant accounting policies (continued)

Taxation

The UK's Corporation tax legislation is relatively complex. The Group's operations are subject to a number of specific rules which apply to UK North Sea exploration and production. In addition, the tax provision is prepared before the relevant companies have filed their UK Corporation tax and supplementary charge returns with HMRC 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.

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

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 financial statements are presented in United States 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 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 12 months after the balance sheet date. Current assets and current liabilities consist solely of amounts that are expected to be recovered or paid within 12 months after the balance sheet date.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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.

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

Office furniture and equipment	25% – 100%

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 land or assets under construction.

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 or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the statement of comprehensive income when the item is derecognised. Gains are not classified as revenue.

Capitalised costs

Oil and gas assets are accounted for using the successful efforts method of accounting.

Intangible oil and gas assets

Expenditure directly associated with evaluation or appraisal activities is 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 in the statement of comprehensive income. When such assets are declared part of a commercial development, related costs are transferred to property, plant and equipment oil and gas assets. 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.

Oil and gas assets

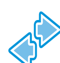
Expenditure relating to development of assets including the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells, is capitalised within property, plant and equipment.

Changes in unit-of-production factors

Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts.

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 added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the statement of comprehensive income in accordance with the effective interest method.



2. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Impairment of assets (excluding goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its oil and gas assets 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 an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In calculating the asset fair values the Group has applied an oil price assumption of US$85 per barrel, escalated at 2% per annum and a discounted pre-tax rate of 19%.

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.

Goodwill

Goodwill acquired in 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. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. 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 cash-generating units that are 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 cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The Group categorises derivatives as follows:

Fair value hedge

Changes in the fair value of derivatives that qualify as fair value hedging instruments are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss. Amounts accumulated in shareholders' equity are transferred to the profit or loss in the period when the hedged item will affect the profit or loss. When a hedging instrument no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in shareholders' equity is transferred to profit and loss.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar manner as cash flow hedges. The gain or loss accumulated in shareholders' equity is transferred to the profit or loss at the time the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the profit or loss.

Trade receivables

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

Inventories

Inventories of consumable well supplies are stated at the lower of cost and net realisable value, cost being determined on a first in first out ('FIFO') basis. Inventories of hydrocarbons are stated at the lower of cost and net realisable value.

Under/over-lift

Under-or over-lifted positions of hydrocarbons are valued at market prices prevailing at the balance sheet date. An under-lift of production from a field is included in current receivables and valued at the reporting date spot price or prevailing contract price and an over-lift of production from a field is included in current liabilities and valued at the reporting date spot price or prevailing contract price.

Cash and cash equivalents

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 less.

2. Summary of significant accounting policies (continued)

Equity

Share capital
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.

The pooling of EnQuest and LNS on 6 April 2010 has resulted in the share capital of LNS being retrospectively adjusted to reflect the capital structure of EnQuest as of the beginning of the earliest comparative period presented. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds.

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, and the consolidation adjustments that arise under the application of the pooling of interest method.

Cash flow hedge reserve
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve. Upon settlement of the hedge instrument, the change in fair value is transferred to the statement of comprehensive income.

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 directly at the fair value of the services received. The share-based payments reserve includes treasury shares.

Retained earnings
Retained earnings contain the accumulated results attributable to the shareholders of the Parent Company.

Employee benefit trust

EnQuest PLC shares held by the Group are deducted from the share-based payments reserve and are recognised at cost. 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.

Provisions

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 and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proven and probable reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil and gas asset.

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the statement of comprehensive income.

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.

Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

If 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 a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the statement of comprehensive income.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowing costs are stated at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

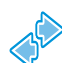
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period where appropriate.

Revenue

Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured.

Oil and gas revenues comprise the Group's 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 recognised in the period in which the services are provided at the agreed contract rates.



2. Summary of significant accounting policies (continued)

Exceptional items

As permitted by IAS 1 (Revised), Presentation of Financial Statements, certain items are presented separately. 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 and 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 assess better trends in financial performance.

Depletion of fair value uplift to property, plant and equipment on acquiring strategic investments

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 recognised as acquired goodwill. The fair value exercise is performed as at the date of acquisition.

The Directors have determined that for strategic investments it is important to separately identify the earnings impact of increased depletion arising from the acquisition date fair value uplifts made to property, plant and equipment over their useful economic lives. As a result of the nature of fair value assessments in the oil and gas industry the value attributed to strategic assets is subjective, based on a wide range of complex variables at a point in time. The subsequent depletion of the fair value uplifts bears little relationship to current market conditions, operational performance or cash generation. Management therefore reports and monitors the business performance of strategic investments before the impact of depletion of fair value uplifts to property, plant and equipment and the uplift is excluded from the business result presented in the Group statement of comprehensive income.

Leases

For a lease to qualify as a finance lease, substantially all of the risks and benefits of ownership must pass to the lessee. In all other cases the lease will be classified as an operating lease. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Employee benefits

Short-term employee benefits

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

Pension obligations

The Group's pension obligations consist of defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group has 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.

Share-based payment transactions

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 ('equity-settled transactions') of EnQuest PLC.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled 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.

The cost of equity-settled transactions is recognised over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). 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.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting conditions, 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 recognised for the award at that date is recognised in the statement of comprehensive income.

Taxes

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 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 and interests in joint ventures, 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.

2. Summary of significant accounting policies (continued)

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.

The Group distinguishes between income tax and production tax. Production tax relates to Petroleum Revenue Tax ('PRT') and is accounted for under IAS 12 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.

3. Segment information

Management have considered the requirements of IFRS 8, in regard to the determination of operating segments, and concluded that the Group has only one operating segment being the exploration for, and the extraction and production of hydrocarbons in the United Kingdom Continental Shelf.

All revenue is generated from sales to customers in the United Kingdom. Details of the Group's revenue components are provided in note 5(a). All crude oil revenue is received from one major customer and amounted to US$570,518,000 or 98% of total revenue in the year ended 31 December 2010 (2009: US$226,325,000 or 97% of total revenue).

4. Exceptional items and depletion of fair value uplift

	2010 US$'000	2009 US$'000
Recognised in arriving at profit from operations before tax and finance income/(costs):		
Initial Public Offering and acquisition costs	**8,143**	–
Costs relating to the acquisition of Stratic	**5,289**	–
Impairment expenses	**59,991**	–
Well abandonment expenses	**8,194**	–
	81,617	–
Depletion of fair value uplift	**16,319**	–
	97,936	–

Initial Public Offering and acquisition costs

Expenses relating to the acquisition of LNS and PEDL and the Company's listing on the London Stock Exchange and Stockholm NASDAQ OMX market of US$8,143,000 (2009: nil) are included in general and administrative expenses in the statement of comprehensive income.

Costs relating to the acquisition of Stratic

Costs of US$5,289,000 (2009: nil) relating to the acquisition of Stratic Energy Corporation ('Stratic') are included in general and administrative expenses in the statement of comprehensive income.

Impairment expenses

Expenses relating to the impairment of Scolty and Peik area assets were recognised in the year (2009: nil). The impairment expense comprises US$25,034,000 relating to Scolty and US$34,957,000 relating to the Peik area, of which US$2,121,000 relates to property, plant and equipment oil and gas assets (note 10) and US$32,836,000 relates to intangible oil and gas assets (note 13).

Well abandonment expenses

Expenses of US$8,194,000 (2009: nil) relating to partial decommissioning of two wells covered by the Intervening Period and Decommissioning Liability Agreements have been recognised due to doubt over recoverability from the previous field owners arising from differences in the commercial interpretation of the Agreements.

Depletion of fair value uplift

Additional depletion charges arising from the fair value uplift of PEDL's oil and gas assets on acquisition of US$16,319,000 (2009: nil) are included within cost of sales in the statement of comprehensive income.

Tax has been included on exceptional items and depletion of fair value uplifts estimated at the Group's effective tax rate of 51%.

5. Revenues and expenses

(a) Revenue

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Revenue from crude oil sales	**570,518**	226,325
Revenue from condensate sales	**1,695**	1,786
Tariff revenue	**11,255**	5,305
Other operating revenue	**–**	601
	583,468	234,017

(b) Cost of sales

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Cost of operations	**180,903**	130,615
Tariff and transportation expenses	**41,661**	15,411
Change in lifting position	**3,864**	(4,593)
Inventory movement – hydrocarbons	**(2,809)**	(65)
Depletion of oil and gas assets (note 10)	**177,185**	51,778
	400,804	193,146

(c) Exploration and evaluation expenses

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Unsuccessful exploration expenditure written off (note 13)	**13,608**	–
Impairment charge (note 13)	**67,249**	6,149
	80,857	6,149

(d) General and administration expenses

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Staff costs (note 5(g))	**31,788**	7,157
Depreciation (note 10)	**845**	642
Other general and administration costs	**17,280**	6,181
Recharge of costs to operations and joint venture partners	**(22,711)**	(13,845)
	27,202	135

(e) Other income

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Foreign exchange gains	**4,838**	3,932
Other income	**2,186**	–
	7,024	3,932

(f) Other expenses

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Foreign exchange losses	**5,526**	21,454
Other expenses	**–**	431
	5,526	21,885

5. Revenues and expenses (continued)

(g) Staff costs

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Total staff costs		
Wages and salaries	**12,823**	5,145
Social security costs	**3,177**	637
Defined contribution pension costs	**841**	358
Expense of share-based payments (note 18)	**3,070**	–
Long-term incentive plan costs (note 18)	**717**	608
Other staff costs	**651**	409
Contractor costs	**6,174**	–
Redundancy costs	**4,335**	–
	31,788	7,157

Redundancy costs of US$4,335,000 were incurred by the Group in the year ended 31 December 2010 (2009: nil) as a result of the Stratic acquisition. These costs are included in 'costs relating to the acquisition of Stratic' which are reported as an exceptional item (note 4).

The average number of persons employed by the Group during the year was 60 (2009: 34).

Details for each Director of remuneration, pension entitlement and incentive arrangements are set out in the Remuneration Report on pages 49 to 52.

(h) Auditors' remuneration

The following amounts were payable by the Group to its auditors during the year.

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Ernst & Young LLP		
Audit of the Group financial statements	**141**	–
Local statutory audits of subsidiaries	**228**	–
Tax services	**80**	–
Other services pursuant to legislation	**63**	–
Corporate finance services (i)	**651**	–
	1,163	–
PricewaterhouseCoopers LLP		
Audit of the Group financial statements	**–**	124
Tax services	**9**	–
Other services pursuant to legislation	**13**	–
Corporate finance services (i)	**70**	–
	92	124

(i) Corporate finance services relate to the IPO and are included in the Initial Public Offering and acquisition costs of $8,144,000 which are presented as an exceptional item (note 4).

6. Finance income/costs

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Finance costs:		
Loan interest payable	**1,693**	3,099
Unwinding of discount on decommissioning provisions (note 20)	**5,196**	2,916
Other financial expenses	**4,298**	429
	11,187	6,444
Finance income:		
Bank interest receivable	**939**	31
Other interest receivable	**–**	796
Other financial income	**235**	–
	1,174	827

7. Income tax

(a) Income tax

The major components of income tax expense are as follows:

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Group statement of comprehensive income		
Current income tax		
Current income tax charge	**4,344**	8,916
Adjustments in respect of current income tax of previous years	**(2,121)**	(943)
Deferred income tax		
Relating to origination and reversal of temporary differences	**25,899**	(4,948)
Adjustments in respect of deferred income tax of previous years	**577**	–
Income tax expense reported in statement of comprehensive income	**28,699**	3,025

(b) Reconciliation of total income tax charge

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

	Year ended 31 December 2010 US$'000	Year ended 31 December 2009 US$'000
Profit before tax	**55,775**	11,017
Statutory rate of Corporation tax in the UK of 50% (2009: 50%)	**27,888**	5,509
Supplementary Corporation tax non-deductible expenditure	**1,364**	1,726
Non-deductible expenditure	**3,682**	–
Petroleum revenue tax (net of income tax benefit)	**3,241**	(3,140)
Ring fence expenditure supplement	**(6,093)**	–
Tax in respect of non-ring fence trade	**971**	(140)
Adjustments in respect of prior years	**(1,544)**	(943)
Overseas tax	**(810)**	13
At the effective income tax rate of 51% (2009: 27%)	**28,699**	3,025

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		Group statement of comprehensive income	
	2010 US$'000	2009 US$'000	**2010 US$'000**	2009 US$'000
Deferred tax liability				
Accelerated capital allowances	**554,307**	355,604	**(33,290)**	17,291
Other temporary differences	**10,474**	582	**2,334**	(6,586)
	564,781	356,186		
Deferred tax asset				
Losses	**(207,100)**	(77,391)	**69,525**	(12,502)
Decommissioning liability	**(70,054)**	(26,468)	**(12,093)**	(3,151)
Other temporary differences	**(4,477)**	–		
	(281,631)	(103,859)		
Deferred tax (expense)/income			**26,476**	(4,948)
Deferred tax liabilities, net	**283,150**	252,327		
Reflected in balance sheet as follows:				
Deferred tax assets	**(8,871)**	(156)		
Deferred tax liabilities	**292,021**	252,483		
Deferred tax liabilities, net	**283,150**	252,327		

7. Income tax (continued)

(d) Tax losses

Deferred income tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised.

Deferred tax assets of US$5,149,000 (2009: nil) were recognised in 2010 on the acquisition of Stratic (note 11) in relation to unutilised tax losses. The tax losses relate to UK trading losses arising in Stratic Energy UK Limited prior to 2010, recoverability of which is dependent on future taxable trading profits in excess of those arising from the reversal of deferred tax liabilities in that company. It is anticipated that Stratic Energy UK Limited will generate taxable trading profits in the future in excess of the losses carried forward, and this company had taxable trading profits in 2010.

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. The denominators for the purposes of calculating both basic and diluted earnings per share for each period have been adjusted to reflect the capital restructure in accordance with IAS 33, 'Earnings per Share' (note 2).

Basic and diluted earnings per share are calculated as follows:

	Profit after tax Year ended 31 December		Weighted average number of shares Year ended 31 December		Earnings per share Year ended 31 December	
	2010 US$'000	2009 US$'000	**2010 Million**	2009 Million	**2010 US$**	2009 US$
Basic	**27,076**	7,992	**686.8**	422.4	**0.040**	0.019
Dilutive potential of Ordinary shares granted under share-based incentive schemes	**–**	–	**5.6**	–	**–**	–
Adjusted	**27,076**	7,992	**692.4**	422.4	**0.040**	0.019

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2010 (2009: nil).

10. Property, plant and equipment

	Oil and gas assets US$'000	Office furniture and equipment US$'000	Total US$'000
Cost:			
At 1 January 2009	769,016	4,387	773,403
Additions	63,525	259	63,784
Change in decommissioning provision	3,385	–	3,385
At 31 December 2009	835,926	4,646	840,572
Additions	148,492	2,366	150,858
Change in decommissioning provision	15,172	–	15,172
Acquisition of subsidiaries	631,211	801	632,012
At 31 December 2010	**1,630,801**	**7,813**	**1,638,614**
Depletion and depreciation:			
At 1 January 2009	266,905	2,689	269,594
Charge for the year	51,778	642	52,420
At 31 December 2009	318,683	3,331	322,014
Impairment charge for the year	2,121	–	2,121
Charge for the year	177,185	845	178,030
At 31 December 2010	**497,989**	**4,176**	**502,165**
Net carrying amounts:			
At 31 December 2010	**1,132,812**	**3,637**	**1,136,449**
At 31 December 2009	517,243	1,315	518,558
At 1 January 2009	502,111	1,698	503,809

No interest has been capitalised within oil and gas assets during the year (2009: nil).

The net book value at 31 December 2010 includes US$5,344,000 (2009: US$2,005,000), of pre-development assets and development assets under construction which are not being depreciated.

During the year ended 31 December 2010, capitalised pre-development costs of US$2,121,000 (2009: nil) and intangible asset licence costs of US$32,836,000 (2009: nil), (note 13) associated with the Peik area were written off based on the Group's latest economic evaluation of the asset which did not support the delivery of an economic development.

11. Business combinations

Acquisition of Stratic

On 5 November 2010, the Company acquired 100% of the issued share capital of Stratic, an oil and gas company operating principally in the United Kingdom. The acquisition was satisfied by the issue and allotment of 24,434,983 EnQuest Ordinary shares (note 17).

The acquisition of Stratic enhanced the Group's proven and probable oil and gas reserves in the UKCS and also consolidated its position in the West Don asset, providing a further 17.25% working interest in the asset.

The provisional fair values of the identifiable assets and liabilities of Stratic, as at the date of the acquisition, are analysed below:

	Provisional fair value recognised on acquisition US$'000
Assets	
Property, plant and equipment	131,486
Intangible oil and gas assets	22,809
Deferred tax assets	5,149
Inventories	2,215
Trade receivables	55
Other receivables and prepayments	4,506
Cash	5,421
	171,641
Liabilities	
Provision – decommissioning	(10,840)
Loans and borrowings	(87,969)
Trade and other payables	(9,793)
Accrued expenses	(10,692)
	(119,294)
Total identifiable net assets at fair value	52,347
Goodwill arising on acquisition	1,816
Consideration	54,163
Purchase consideration transferred:	
24,434,983 Ordinary £0.05 EnQuest shares	**54,163**

The fair values are provisional due to the complexity of the acquisition and due to the inherently uncertain nature of a number of the critical accounting estimates. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition.

From the date of acquisition, Stratic has contributed US$6,511,000 to revenue and US$70,000 to the net profit before tax of the Group. If the above combination had taken place at the beginning of 2010, net profit of the Group would have been US$28,767,000 and revenue would have been US$608,210,000.

The goodwill recognised above is attributed to the expected synergies and other benefits from combining the assets and activities of Stratic with those of the Group. None of the recognised goodwill will be deductible for income tax purposes.

Business combination expenses of US$5,289,000 relating to the above transactions have been expensed in the year (2009: nil).

LNS capital restructuring

On 6 April 2010, EnQuest acquired 100% of the voting rights of LNS, an oil and gas exploration and production company operating in the UK Continental Shelf. The acquisition was satisfied by the issue and allotment of EnQuest Ordinary shares (note 17). For financial reporting purposes, the combination of LNS with EnQuest has been accounted for as a capital restructuring under the pooling of interests method.

On 6 June 2010, LNS changed its name to EnQuest North Sea BV.

Acquisition of PEDL

On 5 April 2010, EnQuest acquired 100% of the voting shares of PEDL, an oil and gas development and production company operating in the UK Continental Shelf. The acquisition, which was satisfied by the issue and allotment of EnQuest Ordinary shares (note 17), has been accounted for using the acquisition method. The Group financial statements include the results of PEDL for the period from its acquisition date.

11. Business combinations (continued)

The provisional fair value of the identifiable assets and liabilities of PEDL as at the acquisition date was:

	Provisional fair value recognised on acquisition US$'000
Assets	
Property, plant and equipment	500,526
Deferred income tax asset	27,310
Inventories	9,335
Trade receivables	4,884
Joint venture receivables	51,678
Other receivables and prepayments	20,051
Cash	16,135
	629,919
Liabilities	
Provision – decommissioning	(55,966)
Deferred tax liabilities	(37,665)
Trade and other payables	(94,183)
Accrued expenses	(29,040)
	(216,854)
Total identifiable net assets at fair value	413,065
Goodwill arising on acquisition	100,102
Purchase consideration transferred, comprising 345,629,616 Ordinary £0.05 EnQuest shares	**513,167**

The fair values are provisional due to the complexity of the acquisition and due to the inherently uncertain nature of a number of the critical accounting estimates. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition.

The fair value of the purchase consideration transferred to acquire PEDL was derived from the opening day share price of EnQuest shares on 6 April 2010, as quoted on the London Stock Exchange.

From the date of acquisition, PEDL has contributed US$281,612,000 to revenue and US$75,759,000 to the net profit before tax of the Group. If the combination had taken place at the beginning of the period, the net profit before tax of the Group for the period would have been US$54,311,000 and revenue would have been US$614,357,000.

The goodwill recognised above is attributed to the expected synergies and other benefits from combining the assets and activities of PEDL with those of the Group. None of the recognised goodwill will be deductible for income tax purposes.

On 6 May 2010, PEDL changed its name to EnQuest Dons Limited.

Business combination expenses of US$1,733,000 relating to the above transactions have been expensed in the period (2009: nil).

12. Goodwill

A summary of the movement in goodwill is presented below:

	2010 US$'000	2009 US$'000
At 1 January	**–**	–
Acquisitions during the year (note 11):		
Petrofac Energy Developments Limited	**100,102**	–
Stratic Energy Corporation	**1,816**	–
At 31 December	**101,918**	–

Goodwill acquired through business combinations has been allocated to a single cash-generating unit ('CGU'), the UKCS, being the Group's only operating segment and therefore the lowest level that goodwill is reviewed by the Board.

Impairment testing of goodwill

The Group performed its annual impairment test in the fourth quarter of 2010. In assessing whether goodwill has been impaired, the carrying amount of the CGU, including goodwill, is compared with its recoverable amount.

12. Goodwill (continued)

The recoverable amount of the CGU has been determined on a value in use basis using a discounted cash flow model comprising asset-by-asset life of field projections. The discount rate used is derived from the Group's post-tax weighted average cost of capital. Risks specific to assets within the CGU are reflected within the cash flow forecasts.

Key assumptions used in value in use calculations
The key assumptions required for the calculation of value in use of the CGU are:
> oil prices
> production volumes
> discount rates

Oil prices are based on management's assessment of oil price using publicly available forecast commodity prices. For the purposes of calculating value in use, management has applied an oil price assumption of US$85 per barrel, escalated at 2% per annum.

Production volumes are based on life of field production profiles for each asset within the CGU. The production volumes used in the value in use calculations are supported by the Group's independent reserve assessment experts.

The discount rate reflects management's estimate of the Group's weighted average cost of capital ('WACC'). The WACC takes in to 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 discount rate applied to the Group's pre-tax cash flow projections is 19% (2009: n/a).

Sensitivity to changes in assumptions
There are reasonably possible changes in key assumptions which could erode the estimated amount of US$640,000,000 by which the calculated value in use exceeds the carrying value of the CGU. These are discussed below:
> oil price: management has considered the possibility of lower oil prices in the future. Revenue for the Group's future oil production is directly linked to the market price of Brent blend oil. A fall in the price for Brent blend production would directly impact the Group's revenue and potentially the economic life of assets in the CGU. It is estimated that the long-term price of oil that would cause the recoverable amount to be equal to the carrying amount of the CGU would be in the order of US$65 per barrel, escalated at 2% per annum.
> production volumes: estimated production volumes are based on detailed data for the Group's portfolio of assets taking in to account asset-by-asset development plans agreed by management as part of the planning process. It is estimated that production would need to fall by 24% across all assets for the whole of the next 19 years to cause the recoverable amount to fall below the carrying amount of the CGU.

13. Intangible oil and gas assets

	US$'000
Cost	
At 1 January 2009	100,573
Additions	2,341
At 31 December 2009	102,914
Additions	17,374
Acquisition of subsidiaries	22,809
Unsuccessful exploration expenditure written off	(13,608)
Reclassified to asset held for sale	(18,665)
At 31 December 2010	**110,824**
Provision for impairment	
At 1 January 2009	(25,124)
Impairment charge for the year	(6,149)
At 31 December 2009	(31,273)
Impairment charge for the year	(67,249)
At 31 December 2010	**(98,522)**
Net carrying amount:	
At 31 December 2010	**12,302**
At 31 December 2009	71,641
At 1 January 2009	**75,449**

During the year ended 31 December 2010, capitalised intangible asset licence costs of US$32,836,000 (2009: nil) and pre-development costs of US$2,121,000 (2009: nil) (note 10), associated with the Peik area were impaired based on the Group's initial economic evaluation of the asset which did not support the delivery of an economic development.

Also, during the year ended 31 December 2010, following a decision taken to discontinue field specific exploration activities on certain licences, US$48,021,000 of capitalised evaluation costs were impaired and written off (2009: US$6,149,000), including US$25,034,000 in relation to the Scolty area.

At 31 December 2010, US$18,665,000 of costs associated with the Petisovci asset (2009: nil) were reclassified to asset held for sale following the announcement that this asset was to be sold in early 2011 (note 25).

14. Inventories

	2010 US$'000	2009 US$'000
Crude oil	**12,404**	1,297

15. Trade and other receivables

	2010 US$'000	2009 US$'000
Trade receivables	**77,203**	28,473
Joint venture receivables	**18,768**	–
Other receivables	**3,865**	5,546
	99,836	34,019
Prepayments and accrued income	**7,707**	1,763
	107,543	35,782

Trade receivables are non-interest bearing and are generally on 15 to 30 day terms.

Trade receivables are reported net of any provisions for impairment. As at 31 December 2010 no impairment provision for trade receivables was necessary (2009: nil).

Joint venture receivables relate to billings to joint venture partners and were not impaired. One joint venture receivable of US$547,000 was past due at 31 December 2010 (2009: nil) but was not impaired.

As at 31 December 2010 other receivables of US$8,194,000 (2009: nil) were determined to be impaired due to doubt over recoverability of well abandonment expenses from previous field owners incurred under Intervening Period and Decommissioning Liability Agreements (note 4).

The carrying value of the Group's trade, joint venture and other receivables as stated above is considered to be a reasonable approximation to their fair value.

16. Cash and cash equivalents

The carrying value of the Group's cash and cash equivalents is considered to be a reasonable approximation to their fair value.

17. Share capital

The share capital of the Company as at 31 December was as follows:

	2010 US$'000	2009 US$'000
Authorised, issued and fully paid		
799,462,905 Ordinary shares of £0.05 each (31 December 2009: 422,436,246 Ordinary shares of £0.05 each)	**60,990**	32,164
Share premium	**52,184**	–
	113,174	32,164

The comparative figure for the share capital at 31 December 2009 is adjusted to reflect the restructuring of EnQuest and LNS under the pooling of interests method (note 2).

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

On incorporation, the Company issued and allotted two Ordinary shares of £1.00 each. On 18 March 2010 the Board approved a 20:1 share split whereby each £1.00 Ordinary share was converted to 20 Ordinary shares of £0.05.

On 5 April 2010, the Company issued and allotted, in aggregate, 345,629,616 Ordinary shares of £0.05 each to the shareholders of Petrofac Limited, the ultimate holding Company of PEDL, in consideration for the transfer of PEDL's voting shares to EnQuest.

On 6 April 2010, the Company issued and allotted 422,436,246 Ordinary shares of £0.05 each to Lundin Petroleum AB, the ultimate holding Company of LNS, in consideration for the transfer of LNS's voting shares to EnQuest.

On 7 April 2010, 6,962,020 Ordinary shares of £0.05 each were issued and allotted to the Company's Employee Benefit Trust to satisfy awards to be made under the Company's share-based incentive schemes.

On 8 November 2010, a further 24,434,983 Ordinary shares of £0.05 each were issued and allotted to the shareholders of Stratic in consideration for the transfer of Stratic's voting shares to the Company. Following this transaction, and at 31 December 2010, the Company had an issued share capital of 799,462,905 Ordinary shares of £0.05 each.

18. Share-based payment plans

On 18 March 2010, the Directors of the Company approved three share schemes for the benefit of Directors and employees, being a Performance Share Plan, a Deferred Bonus Share Plan and a Restricted Share Plan. No awards under the Performance Share Plan were granted to employees in 2010.

Deferred Bonus Share Plan ('DBSP')

Directors and selected employees are eligible to participate under this 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 his or her invested shares ('Matching Shares'). The awards granted in 2010 will vest 25% on the second anniversary of the date of grant, a further 25% after year three and the final 50% on the fourth anniversary of the date of grant. The invested awards are fully recognised as an expense in the period to which the bonuses relate. The costs relating to the matching shares are recognised over the four year vesting period and the fair values of the equity-settled matching shares granted to employees are based on quoted market prices adjusted for the trued up percentage vesting rate of the plan.

Details of the fair values and assumed vesting rates of the DBSP scheme are shown below:

	Weighted average fair value per share	Trued up vesting rate
2010 awards	**101p**	**98%**
2009 awards	n/a	n/a

The following shows the movement in the number of shares held under the DBSP scheme outstanding but not exercisable:

	2010 Number*	2009 Number*
Outstanding at 1 January	**–**	–
Granted during the year	**390,730**	–
Vested during the year	**–**	–
Forfeited during the year	**–**	–
Outstanding at 31 December	**390,730**	–

* Includes invested and matching shares.

The charge recognised in the 2010 statement of comprehensive income in relation to matching share awards amounted to US$72,000 (2009: nil).

Restricted Share Plan ('RSP')

Under the Restricted Share Plan scheme, employees are granted shares in EnQuest over a discretionary vesting period, which may or may not be, at the direction of the Remuneration Committee of the Board of Directors of EnQuest, subject to the satisfaction of performance conditions. Awards made in 2010 under the RSP will vest over periods between one and five 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 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.

Details of the fair values and assumed vesting rate of the RSP scheme are shown below:

	Weighted average fair value per share	Trued up vesting rate
2010 awards	**104p**	**98%**
2009 awards	n/a	n/a

The following table shows the movement in the number of shares held under the RSP scheme outstanding but not exercisable:

	2010 Number	2009 Number
Outstanding at 1 January	**–**	–
Granted during the year	**7,926,411**	–
Vested during the year	**–**	–
Forfeited during the year	**–**	–
Outstanding at 31 December	**7,926,411**	–

The charge recognised in the year ended 31 December 2010 amounted to US$2,997,000 (2009: nil).

The Company has recognised a total charge of US$3,070,000 (2009: nil) in the statement of comprehensive income during the year, relating to the above employee share-based schemes.

18. Share-based payment plans (continued)

Long-Term Incentive Plan scheme ('LTIP')
Prior to the formation of EnQuest PLC, LNS participated in the Lundin Petroleum Group LTIP scheme which consisted of an annual grant of units that converted into cash payment at vesting. The cash payment was determined at the end of each vesting period by multiplying the number of units by the share price. The LTIP had a three year duration whereby the initial grant of units vested equally in three tranches; one third after one year, one third after two years and the final third after three years. The demerger of LNS from the Lundin Petroleum Group resulted in all LTIP awards vesting due to the change in control, resulting in total costs of US$717,000 for the year ended 31 December 2010 (2009: US$608,000).

Share Option programme
LNS participated in the Lundin Petroleum Group Share Option programme prior to the formation of EnQuest PLC, whereby warrants were issued to employees enabling them to buy shares in Lundin Petroleum AB. All incentive warrants issued under this scheme expired by 30 June 2010.

Movements in the number of incentive warrants outstanding in relation to employees of the Group and the related weighted average exercise prices are as follows:

	2010 Average weighted exercise price SEK per share	**2010 Number of shares**	2009 Average weighted exercise price SEK per share	2009 Number of shares
At 1 January	**78.05**	**118,250**	89.85	534,250
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Lapsed	**78.05**	**(118,250)**	89.36	(416,000)
At 31 December	**–**	**–**	78.05	118,250

19. Loans and borrowings

The Group had the following loans and borrowings outstanding:

	Effective interest rate (%)	Maturity	**2010 US$'000**	2009 US$'000
Non-current				
Term loan (ii)	US LIBOR +0.9%	2014	**–**	156,000

(i) Revolving credit facility
On 17 March 2010, in anticipation of the corporate restructuring with LNS and the acquisition of PEDL, the Group established a two year US$280,000,000 Revolving Credit Facility Agreement with Bank of Scotland and BNP Paribas which is secured on the assets of the Group. Under the terms of the facility agreement, the Group has the ability to draw loans to a maximum value of US$200,000,000 and utilise Letters of Credit ('LoC') to a maximum aggregate value of US$80,000,000.

Interest on the revolving credit facility is payable at US LIBOR (relative to each agreed loan period) plus a margin of 2.25% to 3.25%, dependent on specified covenant ratios. A facility non-utilisation commitment fee is payable at 50% of the interest margin.

At 31 December 2010 there were no borrowings under the Group's facility agreement (2009: nil) and LoC utilisation of US$74,000,000 (2009: nil).

(ii) Term loan
At 31 December 2009, LNS had a term loan under the Lundin Petroleum AB Group term loan facility with BNP Paribas. On 31 March 2010, in anticipation of the combination of LNS with EnQuest, this term loan was assigned from LNS to Lundin Petroleum BV. The resulting liability between LNS and Lundin Petroleum BV, net of a long-term loan receivable by LNS, was capitalised on 6 April 2010.

20. Provisions

	Decommissioning US$'000	Others US$'000	Total US$'000
At 1 January 2009	46,633	231	46,864
Additions during the year	–	261	261
Changes in estimates	3,385	–	3,385
Unwinding of discount	2,916	–	2,916
Utilisation	–	(228)	(228)
At 31 December 2009	**52,934**	**264**	**53,198**
At 1 January 2010	52,934	264	53,198
Additions during the year	10,897	–	10,897
Acquisition of subsidiaries	66,806	–	66,806
Changes in estimates	4,275	–	4,275
Unwinding of discount	5,196	–	5,196
Utilisation	–	(264)	(264)
At 31 December 2010	**140,108**	**–**	**140,108**

Provision for decommissioning
The Group makes full provision for the future costs of decommissioning its oil production facilities and pipelines on a discounted basis.

The provision represents the present value of decommissioning costs, which are expected to be incurred up to 2030 assuming no further development of the Group's assets. The liability is discounted at a rate of 5.0% (2009: 5.5 %). The unwinding of the discount is classified as finance cost (note 6).

These provisions have been created based on internal 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.

21. Trade and other payables

	2010 US$'000	2009 US$'000
Trade creditors	**11,762**	1,481
Accrued expenses	**101,767**	31,241
Other payables	**3,387**	604
	116,916	33,326

Trade payables are non-interest bearing and are normally settled on terms of between 10 and 30 days. Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in GBP.

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

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.

22. Commitments and contingencies

Commitments

Leases

The Group has financial commitments in respect of non-cancellable operating leases for office premises. These leases have remaining non-cancellable lease terms of between one and five years. The future minimum rental commitments under these non-cancellable leases are as follows:

	2010 US$'000	2009 US$'000
Not later than one year	**1,725**	711
After one year but not more than five years	**3,433**	1,423
	5,158	2,134

Lease payments recognised as an operating lease expense during the year amounted to US$1,163,446 (2009: US$649,000).

Capital commitments

At 31 December 2010, the Group had capital commitments excluding the above lease commitments amounting to US$78,602,000 (2009: US$24,485,000).

23. Related party transactions

The Group financial statements include the financial statements of EnQuest PLC and its subsidiaries.

The following table provides the total amount of transactions which have been entered into with related parties:

	Sales to related parties US$'000	Purchases from related parties US$'000	Amounts owed by related parties US$'000	Amounts owed to related parties US$'000
2010:				
Lundin Petroleum BV	904	–	–	–
Parent Company	**904**	**–**	**–**	**–**
2009:				
Lundin Petroleum AB – current	–	–	–	179
Lundin Petroleum AB – long-term loan	–	–	21,443	–
Ultimate Parent Company	**–**	**–**	**21,443**	**179**
Lundin Petroleum BV	796	–	–	36
Parent Company	**796**	**–**	**–**	**36**
Lundin Services BV	–	–	–	282
Lundin Oil & Gas BV	–	–	438	–
Lundin Norway AS	–	–	114	–
Subsidiaries	**–**	**–**	**552**	**282**
	796	**–**	**21,995**	**497**

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. Following the restructuring on 6 April 2010, the entities listed in the above table ceased to be related parties.

There have been no other transactions with related parties.

The carrying value of the Group's related party assets and liabilities as stated above is considered to be a reasonable approximation to their fair value.

Compensation of key management personnel

The following table details remuneration of key management personnel of the Group comprising of Executive Directors of the Company and other senior personnel.

	2010 US$'000	2009 US$'000
Short-term employee benefits	**4,992**	350
Share-based payments	**2,323**	–
Post employment pension benefits	**38**	44
	7,353	394

24. 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 and borrowings and trade and other payables. The main purpose of these 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 2010 and 2009 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 oil prices on its revenues and profits generated from sales of crude oil. The Group did not hedge this risk in the years ending 31 December 2010 and 2009.

24. Risk management and financial instruments (continued)

The following table summarises the impact on the Group's pre-tax profit and equity of a reasonably possible change in the oil price, with all other variables held constant:

	Pre-tax profit		Equity	
	+US$10/Bbl increase US$'000	-US$10/Bbl decrease US$'000	+US$10/Bbl increase US$'000	-US$10/Bbl decrease US$'000
31 December 2010	**69,746**	**(69,746)**	**20,661**	**(33,478)**
31 December 2009	35,790	(35,790)	14,810	(14,810)

During 2010, the Board of EnQuest approved a policy to hedge up to a maximum of 50% of annual oil production. In the fourth quarter of 2010, the Group entered in to four zero premium oil price collars for 2011 to hedge, partially, its exposure to fluctuations in oil prices. Each collar will hedge the price of approximately 1,000,000 barrels of oil in 2011. These derivative instruments are designated effective cash flow hedges and had a nil fair value at 31 December 2010 (2009: nil).

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the Group's functional currency. The Group manages this risk by converting US$ receipts at spot rates periodically and as required for payments in other currencies. Approximately 6% of the Group's sales and 79% of costs are denominated in currencies other than the functional currency.

The following table summarises the impact on the Group's pre-tax profit and equity (due to change in the fair value of monetary assets and liabilities) of a reasonably possible change in United States dollar exchange rates with respect to different currencies:

	Pre-tax profit		Equity	
	+10% US dollar rate increase US$'000	-10% US dollar rate decrease US$'000	+10% US dollar rate increase US$'000	-10% US dollar rate decrease US$'000
31 December 2010	**(22,664)**	**22,664**	**(10,879)**	**10,879**
31 December 2009	(1,752)	1,752	(876)	876

Credit risk

The Group trades only with recognised, international oil and gas operators and at 31 December 2010 there were no trade receivables past due (2009: nil), and one joint venture receivable past due of US$547,000 (2009: nil). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

At 31 December 2010, the Group had one customer accounting for 97% of outstanding trade and other receivables (2009: one customer, 83%) and three joint venture partners accounting for 82% of joint venture receivables (2009: nil).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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 counter-party credit risks.

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 these facilities. 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. Throughout the year and at 31 December 2010 the Group was in compliance with all financial covenant ratios agreed with its bankers.

At 31 December 2010, the Group had US$206,000,000 (2009: nil) of undrawn committed borrowing facilities available which are due to expire in March 2012 and replacement borrowing facilities are expected to be arranged during 2011.

The maturity profiles of the Group's financial liabilities are as follows:

Year ended 31 December 2010	On demand US$'000	Up to 1 year US$'000	1 to 2 years US$'000	2 to 5 years US$'000	Total US$'000
Accounts payable and accrued liabilities	116,254	–	–	–	116,254
Financial expenses	–	3,983	1,320	–	5,303
	116,254	**3,983**	**1,320**	**–**	**121,557**

Year ended 31 December 2009	On demand US$'000	Up to 1 year US$'000	1 to 2 years US$'000	2 to 5 years US$'000	Total US$'000
Interest-bearing loans and borrowings	–	–	–	156,000	156,000
Accounts payable and accrued liabilities	33,326	–	–	–	33,326
Due to related parties	497	–	–	–	497
Financial expenses	–	1,810	1,810	5,430	9,050
	33,823	**1,810**	**1,810**	**161,430**	**198,873**

24. Risk management and financial instruments (continued)

Capital management

The Group's management is committed to delivering and enhancing shareholder value, and building upon the progress made during the current year. The Board believes that this can best be achieved by reinvesting in the Group's core business and through pursuing selective acquisitions and development opportunities. In light of the Group's commitment to investment in ongoing production operations development, exploration projects and acquisitions, the Directors do not recommend payment of a dividend at this time. This is, however, re-assessed by the Board on a regular basis.

The Group seeks to optimise the return on investment, by managing its capital structure to achieve capital efficiency whilst also maintaining flexibility for future acquisitions. The Group keeps under review the costs and access to debt funding to ensure it has an appropriate flexibility. Note 19 to the financial statements provides further details of the Group's financing activity.

Capital for the Group is equity attributable to the equity holders of the Parent Company, and is in the Group statement of changes in equity on page 57.

The Group monitors capital using the gearing ratio and return on shareholders' equity as follows:

	2010 US$'000	2009 US$'000
Loans and borrowings, net (A)	**–**	(134,557)
Cash and short-term deposits	**41,395**	7,893
Net debt (B)	**41,395**	(126,664)
Equity attributable to EnQuest PLC shareholders (C)	**882,896**	160,200
Profit for the year attributable to EnQuest PLC shareholders (D)	**27,076**	7,992
Gross gearing ratio (A/C)	**n/a**	84%
Net gearing ratio (B/C)	**n/a**	79%
Shareholders' return on investment (D/C)	**3%**	5%

25. Post balance sheet events

On 11 February 2011 the Group sold its 48.75% interest in the Petisovci project ('Petisovci') in Slovenia in return for 150, 903,958 new Ordinary shares in Ascent Resources plc ('Ascent'), representing a 22.2% equity stake in Ascent. The Group had acquired its interest in Petisovci through its acquisition of Stratic in November 2010. As part of the transaction the Group also received a nil-cost option to receive a further 29,686,000 new Ordinary shares in Ascent, subject to certain criteria related to the successful development of Petisovci.

On 23 March 2011 it was announced that supplementary Corporation tax on UK oil and gas production is to be increased from 20 per cent to 32 per cent with effect from 24 March 2011, thereby increasing the combined rate of tax on UK oil and gas production from 50 per cent to 62 per cent on ring fence profits and from 65 per cent to 81 per cent for fields liable to petroleum revenue tax. The government has stated that the supplementary Corporation tax rate may be reduced back to 20 per cent if oil prices stay low (below US$75 per barrel) for a sustained period, however it is not clear at this time if this will be incorporated into legislation. This change in UK tax legislation does not impact the 2010 Group financial results as these changes have not been substantively enacted at the balance sheet date, however it is likely to have a material effect on the value of the Group's deferred tax liabilities and assets and income tax charge in future reporting periods.

26. Subsidiaries

At 31 December 2010, EnQuest PLC had investments in the following principal subsidiaries:

Name of company	Principal activity	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group
EnQuest North Sea BV	Intermediate holding company	Netherlands	100%
EnQuest Britain Limited (i)	Intermediate holding company and provision of Group manpower and contracting/ procurement services	England	100%
EnQuest Dons Limited	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Dons Oceania Limited (i)	Exploration, extraction and production of hydrocarbons	Cayman Islands	100%
EnQuest Heather Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
EnQuest Thistle Limited (i)	Extraction and production of hydrocarbons	England	100%
Stratic Energy (UK) Limited (i)	Exploration, extraction and production of hydrocarbons	England	100%
Grove Energy Limited (i)	Intermediate holding company and exploration of hydrocarbons	Canada	100%

(i) Held by subsidiary undertaking.

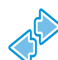
STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE PARENT COMPANY FINANCIAL STATEMENTS

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

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

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

The Directors are responsible for keeping adequate 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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENQUEST PLC

We have audited the parent Company financial statements of EnQuest PLC for the period ended 31 December 2010 which comprise the Company balance sheet, and the related notes 1 to 12. 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).

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 81, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the period 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.

Opinion 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; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

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 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.

Other matter

We have reported separately on the parent Company financial statements of EnQuest PLC for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

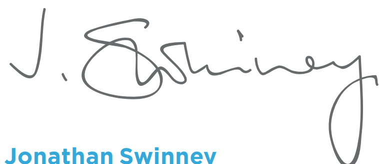
Gary Donald (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor, London
4 April 2011

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2010

	Notes	2010 US$'000
ASSETS		
Non-current assets		
Investment in subsidiaries	3	**1,197,602**
Debtors	5	**638**
		1,198,240
Current assets		
Amounts due from subsidiaries		**10,083**
Cash and cash equivalents	4	**157**
		10,240
TOTAL ASSETS		**1,208,480**
EQUITY AND LIABILITIES		
Equity		
Issued share capital	7	**60,990**
Share premium account	8	**52,184**
Merger reserve	8	**1,081,890**
Share-based payment reserve	8	**2,540**
Retained losses	6	**(8,371)**
Total Equity		**1,189,233**
Current liabilities		
Accruals		**1,990**
Amounts due to subsidiaries		**17,257**
TOTAL LIABILITIES		**19,247**
TOTAL EQUITY AND LIABILITIES		**1,208,480**

The attached notes 1 to 12 form part of these Group financial statements.

The financial statements on pages 80 to 85 were approved by the Board of Directors on 4 April 2011 and signed on its behalf by:



Jonathan Swinney
Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

The Company financial statements of EnQuest PLC (the 'Company') for the period ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 4 April 2011.

EnQuest PLC ('EnQuest' or the 'Company') is a limited liability company registered in England and is the holding Company for the Group of EnQuest subsidiaries (together 'the Group'). The Company was incorporated on 29 January 2010 as a holding Company to effect a business combination between Lundin North Sea BV ('LNS') and Petrofac Energy Developments Limited ('PEDL').

The Group's principal activities are the exploration for, and extraction and production of hydrocarbons in the UK Continental Shelf.

2. Summary of significant accounting policies

Basis of preparation

The separate financial statements have been prepared in accordance with applicable UK Accounting Standards on a historical cost basis. The functional and presentation currency of the separate financial statements is United States dollars and all values in the separate financial statements are rounded to the nearest thousand (US$'000) except where otherwise stated.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

Going concern concept

The Directors' assessment of going concern concludes that the use of going concern basis is appropriate because there are no material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern.

Investment in subsidiaries

Investment in subsidiaries are stated at cost less any provision for impairment.

Amounts due from/to subsidiaries

Amounts due from/to subsidiaries are non-interest bearing short-term funding to and from subsidiaries. These are recognised at the fair value of consideration received or paid, less any provision for impairment.

Cash and cash equivalents

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 less.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The Group categorises derivatives as follows:

Fair value hedge

Changes in the fair value of derivatives that qualify as fair value hedging instruments are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges are recognised through the statement of recognised gains or losses.

The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss. Amounts accumulated in shareholders' equity are transferred to the profit or loss in the period when the hedged item will affect the profit or loss. When a hedging instrument no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in reserves is transferred to profit and loss.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar manner as cash flow hedges. The gain or loss accumulated in the statement of recognised gains and losses is transferred to the profit or loss at the time the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

When derivatives do not qualify for hedge accounting, changes in fair value are recognised immediately in the statement of comprehensive income.

Employee benefit trust

EnQuest PLC shares held by the Group are deducted from the share-based payments reserve and are recognised at cost. 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.

Share-based payment transactions

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 ('equity-settled transactions') of EnQuest PLC.

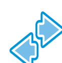
Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled 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.

The cost of equity-settled transactions is recognised over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). 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 profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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 recognised for the award at that date is recognised in the statement of comprehensive income.

The Company operates a number of share award schemes on behalf of the employees of the Group which are described in detail in note 18 of the Group financial statements.



2. Summary of significant accounting policies (continued)
The reserve for the share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

3. Investments in subsidiaries

	2010 US$'000
At 29 January	–
Investment in Lundin North Sea BV	627,203
Investment in EnQuest Dons Limited	513,167
Investment in Stratic Energy Corporation	54,162
Additions – shared-based payments charge	3,070
At 31 December	1,197,602

Details of the Company's principal subsidiaries at 31 December 2010 are provided in note 26 of the Group financial statements.

4. Cash and cash equivalents

	2010 US$'000
Cash at bank and in hand	157

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The carrying value of the Company's cash and cash equivalents as stated above is considered to be a reasonable approximation to their fair value.

5. Debtors

	2010 US$'000
Deferred tax losses available for offset	638

Change in Corporation tax rate
The Emergency Budget on 22 June 2010 announced that the UK Corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first reduction in the UK Corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the Company's future current tax charge accordingly. Any deferred tax expected to reverse in the year to 31 December 2011 has been remeasured using the effective rate that will apply for the period.

The aggregate impact of the proposed reductions from 27% to 24% would reduce the deferred tax asset by approximately US$91,000.

6. Loss attributable to members of the Parent Company
The loss dealt with in the financial statements of the Parent Company is US$8,371,000 (2009: nil). There were no other recognised gains or losses in the period (2009: nil).

7. Issued share capital
Allotted, called up and fully paid

	2010 US$'000
799,462,905 Ordinary shares of £0.05 each	60,990

On incorporation, the Company issued and allotted two Ordinary shares of £1.00 each. On 18 March 2010 the Board approved a 20:1 share split whereby each £1.00 Ordinary share was converted to 20 Ordinary shares of £0.05.

On 5 April 2010, the Company issued and allotted, in aggregate, 345,629,616 Ordinary shares of £0.05 each to the shareholders of Petrofac Limited, the ultimate holding Company of PEDL, in consideration for the transfer of PEDL's voting shares to EnQuest.

On 6 April 2010, the Company issued and allotted 422,436,246 Ordinary shares of £0.05 each to Lundin Petroleum AB, the ultimate holding Company of LNS, in consideration for the transfer of LNS's voting shares to EnQuest.

On 7 April 2010, 6,962,020 Ordinary shares of £0.05 each were issued and allotted to the Company's Employee Benefit Trust to satisfy awards to be made under the Company's share-based incentive schemes.

On 8 November 2010, a further 24,434,983 Ordinary shares of £0.05 each were issued and allotted to the shareholders of Stratic Energy Corporation ('Stratic') in consideration for the transfer of Stratic's voting shares to the Company. Following this transaction, and at 31 December 2010, the Company had an issued share capital of 799,462,905 Ordinary shares of £0.05 each.

8. Reserves

	Share premium US$'000	Merger reserve US$'000	Share-based payments reserve US$'000	Retained (losses) US$'000	Total US$'000
Balance at 29 January 2010	–	–	–	–	–
Issue of Ordinary shares to acquire subsidiaries	52,184	1,081,890	–	–	1,134,074
Issue of shares to Employee Benefit Trust	–	–	(530)	–	(530)
Share-based payments charge	–	–	3,070	–	3,070
Loss for the period	–	–	–	(8,371)	(8,371)
Balance at 31 December 2010	**52,184**	**1,081,890**	**2,540**	**(8,371)**	**1,128,243**

Nature and purpose of other reserves

Share premium

The excess contribution over the nominal value on the issuance of shares is accounted for as share premium.

Merger reserve

The Group merger reserve is used to record the difference between the market value of EnQuest shares issued to effect the business combinations less the nominal value of shares issued.

Share-based payments reserve

The reserve for share-based payments is used to record the value of equity-settled share-based payments awards to employees. Transfers out of this reserve are made upon vesting of the original share awards.

Share-based payment plan information is disclosed in note 18 of the Group financial statements.

9. Derivative financial instruments

At 31 December 2010, the Company had entered into four zero premium oil price collars on behalf of its subsidiaries; EnQuest Heather Limited, EnQuest Thistle Limited and EnQuest Dons Limited; which will mature in 2011 to hedge, partially, the Group's exposure to fluctuations in oil prices. At the balance sheet date the change in fair value of these derivatives was nil (2009: nil). On maturity of the hedges the associated gain or loss will be recharged to EnQuest Heather Limited, EnQuest Thistle Limited and EnQuest Dons Limited.

10. Risk management and financial instruments

Details of risk management and financial instruments are provided in note 24 of the Group financial statements.

11. Other transactions with Directors

Details of Directors' remuneration are provided in the Directors' Remuneration Report.

12. Related party transactions

The Company has taken advantage of the exemption in FRS 8, not to disclose transactions with its wholly owned subsidiaries.

COMPANY INFORMATION

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EnQuest PLC shares are traded on the London Stock Exchange using code ENQ. The shares are also traded on NASDAQ OMX Stockholm using the code ENQ

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Swedish Registrar
Euroclear Sweden AB
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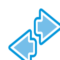
Financial Calendar

25 May 2011	2011 Annual General Meeting
August 2011	2011 Half-Year Results

Glossary
For a full list of Company definitions, please visit the Glossary in the Media section of our website www.enquest.com

Forward looking statements: This report may contain certain forward-looking statements with respect to EnQuest's expectation and plans, strategy, management's objectives, future performance, production, costs, revenues and other trend information. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions and the current regulatory environment. Nothing in this report should be construed as a profit forecast. Past share performance cannot be relied on as a guide to future performance.



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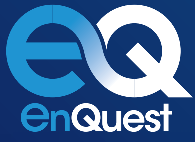

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