

Welcome to the EnQuest PLC Annual Report and Accounts 2011

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Delivering growth

Annual Report and
Accounts 2011

An independent oil and
gas development and
production company



Delivering growth



Alma and Galia

EnQuest's first new production hub and largest development so far

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The EnQuest development machine

In Aberdeen, EnQuest has built a centre of excellence for integrated development

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Chief Executive's Report

EnQuest has the skills, the scale and the strength to be a powerful development and production company in 2012 and far beyond

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Growing asset base

EnQuest has seven producing fields, with two more under development; at the end of 2011 it had interests in 22 production licences and was the operator of 19 of these

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TECHNICAL SKILLS

The Alma/Galia development shows how EnQuest is now a leading force in integrated development

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OPERATIONAL SCALE

With a direct workforce of around 300, and 1,300 including offshore contractors, EnQuest has a breadth and depth of expertise matched by few if any UK companies of its size

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FINANCIAL STRENGTH

With a strong balance sheet and strong cash flow generation, combined with its technical skills and operational scale, EnQuest is increasingly becoming the natural partner of choice for major integrated development projects in the UK North Sea

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ENQUEST IS AN OIL AND GAS DEVELOPMENT AND PRODUCTION COMPANY: THE LARGEST UK INDEPENDENT PRODUCER IN THE UK NORTH SEA.

Delivering strong growth in 2011

- Strong \$656.3 million cash flow from operations and \$629.1 million EBITDA¹, pre-exceptional and fair value adjustments, respective increases on pro-forma² 2010 equivalents of 145.2% and 70.3%
- 2011 production of 23,698 Boepd, up 12.5% on pro-forma² 2010 production, with good production performances from all three production hubs
- Nine wells drilled in 2011, with four production wells brought on stream
- Total end 2011 net 2P reserves were 115.2 MMboe, growth of 30.2% over 2010, with a reserve replacement ratio of 419.4%

2012 and beyond

- Targeting net average production of between 20,000 Boepd and 24,000 Boepd in 2012, between 25,000 Boepd and 30,000 Boepd for 2013 and in excess of 40,000 Boepd for 2014

HIGHLIGHTS

Cash flow from operations \$ million

↑ 145.2%

Cash flow from operations

2011	656.3
2010	267.7

Production Boepd

↑ 12.5%

Daily average net export production

2011	23,698
2010	21,074

2P reserves MMboe

↑ 30.2%

Net year end 2P reserves

2011	115.2
2010	88.5

1 EBITDA is calculated by taking profit/(loss) from operations before tax and finance income/(costs), deducting gain on disposal of asset held for sale (note 14) and adding back depletion (note 10), depreciation (note 10), impairment (note 13 & 15) and write off of tangible and intangible oil and gas assets (note 13 & 15). EBITDA is not a measure of financial performance under IFRS.

2 'Pro-forma' data reflects the results for the calendar year 2010, as if the assets previously owned by Petrofac Limited and Lundin Petroleum AB were owned by EnQuest throughout the period, to allow comparison with the reported results for the 2011 calendar year. This pro-forma data is as originally reported in the 2010 full year results, which are available to view at www.enquest.com.



→ THE ENQUEST WAY

Turning opportunities into value

The right fit for the right time in the North Sea

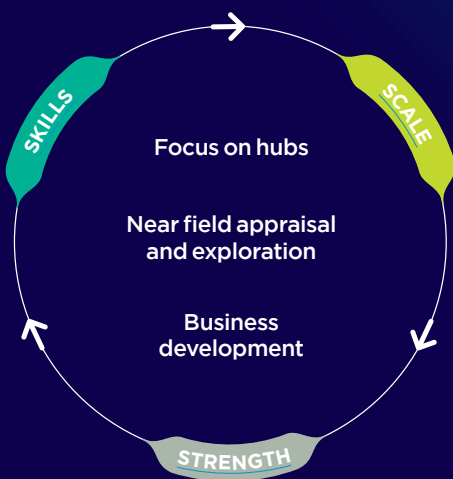
- Focused on oil
- Targeting maturing assets and undeveloped oil fields
- Control through operatorship and high working interests
- Low decommissioning exposure
- Proven acquirer of assets

Focused on skills and execution

- Continuous improvement in HSEQ
- Leadership in innovative developments
- Integrated teams
- Proven depth in engineering, subsurface, execution and operations
- Innovative and cost efficient development solutions

ENQUEST STRATEGY

Focused on development and production Realising the untapped potential in maturing assets and in undeveloped oil fields



Focus on hubs Alma and Galia

- Maximising production and exploiting upside potential
- Infill drilling
- Extending field life
- Hub focus reduces costs

Near field appraisal and exploration Conrie and Crathes

- Relatively low risk and low cost
- Commercialising and developing discoveries
- Converting contingent prospective resources into 2P reserves

Business development Kildrummy and Kraken

- Adding to our existing asset base
- Acquisitions of assets and companies
- Licence rounds
- Farm ins



ENQUEST VALUES

RESPECT

In EnQuest respect is paramount, for our people, 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.

PASSION

EnQuest is a passionate, enthusiastic and committed organisation. Individuals and teams inspire others and create 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.



SKILLS



SCALE



STRENGTH

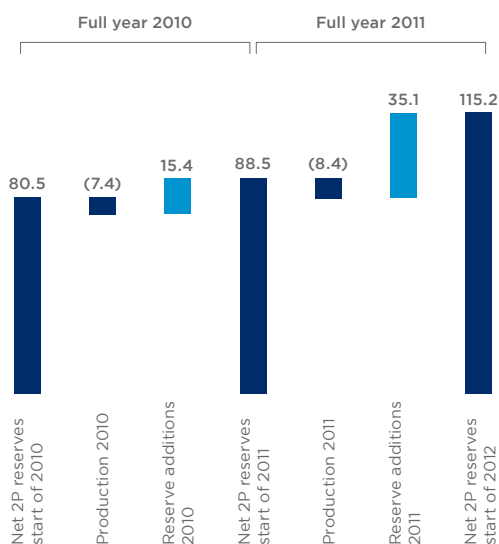


ASSETS AND RESERVES

Track record of delivering sustainable growth

It is EnQuest's intention to deliver sustainable growth by focusing on exploiting its existing reserves, commercialising and developing discoveries, converting contingent resources into reserves and pursuing selective acquisitions. EnQuest believes it is establishing a track record of delivering on all of these fronts. The reserves table below shows EnQuest's strong reserves replacement ratio of 419% in 2011. The Group's Proven and Probable Reserves have been audited by a recognised Competent Person in accordance with the definitions set out under the 2007 Petroleum Resources Management System and supporting guidelines issued by the Society of Petroleum Engineers.

Track record of sustainable delivery and growth
MMboe



Principal assets

EnQuest's principal assets at the end of 2011 were its interests in the Heather, Broom, Thistle, Deveron, West Don, Don Southwest and Conrie producing oilfields, the Alma and Galia development, and further development opportunities in the Southwest Heather, Cairngorm, Pilot, Crathes, Scolty, Torphins, Crawford, Porter and Kildrummy discoveries. Recent developments in 2012 include EnQuest's acquisition of interests in the Kraken discovery and an agreement to increase its interest in the West Don producing field. At the end of December 2011 EnQuest had working interests in 22 production licences covering 27 blocks or part blocks in the UKCS and was the operator of 19 of its 22 licences.

	Licence	Blocks	Working interest %	Name
Production and developments	P902	2/4a	63	Broom
	P242	2/5	63 & 100	Broom & Heather
	P1200	211/13b	63	West Don ⁴
	P236	211/18a	63, 60, 60, 99 & 99	West Don ⁴ , Don SW, Conrie, Thistle & Deveron
	P475	211/19a	99	Thistle
	P1765	30/24c & 25c	100	Alma
Discoveries	P1825	30/24b	100	Galia
	P242	2/5	55	SW Heather
	P090	9/15a	33	Peik
	P209	9/28a	51	Crawford & Porter
	P1214	16/2b	100	Cairngorm
	P1107	21/8a	40	Scolty & Torphins
	P1790	21/27a & 28/2a	100	Pilot
	P1617	21/12c & 13a	40	Crathes
	P250 & P585	15/12b & 15/17a	40	Kildrummy
	P1077	9/2b & 9/2c	45	Kraken ¹
Other licenses	P1487	211/1a, 2a & 3a	60	
	P1269	211/18c	50	
	P1463	14/30a	20	
	P1751	3/1c	100	
	P1608	3/11a	100	
	P1753	3/17	33	
	P1582	20/15a	100	
	P1618	21/13c	40	
	P1573 & P1574	3/22a & 3/26	55	²
	P1575	9/6a & 9/7b	45	³

The following transactions took place in the first quarter of 2012:
 1 Includes the acquisition of 20% from Canamens Limited and 25% from Nautical Petroleum plc
 2 Includes the acquisition of 40% from Canamens Limited and 15% from Nautical Petroleum plc
 3 Includes the acquisition of 35% from Canamens Limited and 10% from Nautical Petroleum plc
 4 Includes 18.5% which EnQuest has agreed to acquire from JX Nippon Exploration and Production (UK) Ltd



UK CONTINENTAL SHELF





CHAIRMAN'S STATEMENT

Overview

I am pleased to report that EnQuest delivered another strong performance in 2011. Production was up 12.5% on 2010 and reserves replacement, at a ratio of over 400%, was well ahead of the targets set out at the time of EnQuest's IPO. The operational capabilities of the EnQuest organisation have grown significantly during the year. EnQuest's basic earnings per share were 7.6 cents in 2011, up by 90% over 2010. EnQuest is continuing to deliver on the plans it laid out at the time of its inception.

Dr James Buckee
Chairman

Market conditions

In 2011, EnQuest's average realised oil price, net of hedging, was \$107.6 per barrel, up from \$81.3 per barrel in 2010. EnQuest's averaged invoiced oil price in 2011 was \$111.8 per barrel.

Oil prices, although volatile, nonetheless stayed above \$100 per barrel for most of 2011. This was due partly to a general tightness in the markets for crude oil, exacerbated by increased levels of producer domestic consumption and by supply disruption from North Africa and the Middle East, in particular Libya and Iran. Despite the uncertainties in the global economy which continue today, it seems clear that following the 'Arab Spring', there have been structural increases in the level of social costs in Middle Eastern countries. Maintaining oil prices at high levels will be critical if Middle Eastern countries are to meet these increased costs. High prices have not stimulated a dramatic supply expansion and the Organisation of Petroleum Exporting Countries has adjusted its price targets.



EnQuest, along with the industry, has been actively engaged in working with the UK Government to promote changes in the fiscal structure and is encouraged by the UK North Sea investment incentive measures recently announced in the 2012 Budget.

Macroeconomic concerns have again focused attention on the challenges companies face in accessing capital to fund developments and acquisitions. EnQuest is fortunate to be differentiated by the strength of its balance sheet and its cash flow and consequently by the scale of the borrowing facilities it can secure, as demonstrated by its new \$900 million credit facility. In these difficult markets, EnQuest's technical skills, operational scale and considerable financial strength are substantial competitive advantages.

The EnQuest model

EnQuest's development and production model is focused on realising the untapped potential in mature assets and undeveloped oil fields. EnQuest concentrates on production hubs, on near field appraisal and exploration, and on business development. Members of the Board and I have had considerable experience of successfully deploying this model. Reassessing and developing fields is a relatively low risk way of steadily generating shareholder value. Now, two years post IPO, we believe it has been successfully established at EnQuest. Indeed EnQuest has created a powerful new force in integrated development. This has enabled us to sanction the Alma and Galia development, EnQuest's fourth hub and a substantial contributor to our expected production growth. Formal field development plan (FDP) approval for Alma/Galia is anticipated in the coming weeks.

The EnQuest Board

During EnQuest's critical early days it was invaluable to have Alexandre Schneider as a non-executive director, given his knowledge of the Heather/Broom and Thistle/Deveron hubs through his association with Lundin Petroleum AB. Alexandre was however not independent for the purposes of the UK Corporate Governance Code, and therefore EnQuest undertook that he would in due course stand

down from the Board. Alexandre Schneider will duly be retiring at the Annual General Meeting on 30 May 2012. The Board and I would like to thank Alexandre for his important contribution to the successful establishment and subsequent development of EnQuest. The Board plans to appoint a new independent non-executive director in due course.

In July 2011, I was delighted to welcome Clare Spottiswoode to the Board as a new EnQuest non-executive director. Clare's wealth of experience, from within and beyond the energy industry, makes her a valuable addition to the Board.

The Board would like to thank EnQuest's employees for their continuing commitment, enthusiasm and support. EnQuest's values are critical to our success; respect, focus, agility, creativity, passion, collaboration and empowerment. EnQuest people live and breathe these values and this has been essential to the delivery of the achievements we are reporting today.

The updated EnQuest Code of Conduct

In 2010, EnQuest launched its Code of Conduct, setting out the behaviour EnQuest expects of its directors, managers and employees, of our suppliers, contractors, agents and partners. EnQuest is committed to complying with the applicable legal requirements, to upholding the highest ethical standards and to acting with complete integrity at all times. In 2011, EnQuest launched an updated version of the Code of Conduct. While the majority of the existing code remains in place, we have augmented the sections dealing with business ethics, in particular those impacted by the UK Bribery Act, these include sections on business gifts and entertainment, as well as facilitation payments and how EnQuest must deal with partners and suppliers. The integrity of EnQuest's employees and everyone we work with underpins our future progress and success.

Earnings per share Cents

↑ 90%

Earnings per share



The Board remains as excited and confident as ever of EnQuest's very considerable potential

Delivering sustainable growth

2011 was an important year for EnQuest, one of both consolidation and growth, bedding in and developing the organisation we launched in 2010 and putting in place the people and structures to execute our long term growth plans. EnQuest's focus on hubs delivered strong production growth, as well as the sanction of Alma and Galia. We had an active business development programme and consolidated our positions in Broom, Crawford and Porter and we also farmed in to the Kildrummy discovery. The strong 2011 reserves and resources performance has already been materially augmented in 2012, with the acquisition of a 45% stake in the Kraken discovery. The macro environment has thrown up challenges, but also opportunities, and the EnQuest team has been able to respond quickly and effectively. The EnQuest Board remains as excited and confident as ever of EnQuest's very considerable potential.





CHIEF EXECUTIVE'S REPORT

Delivering strong growth

2011 was a strong year for EnQuest, with annual production at 23,698 Boepd, up 12.5% on 2010. Our operations generated an excellent financial performance with cash flow from operations of \$656.3 million and EBITDA of \$629.1 million. Profit before tax and net finance costs increased to \$390.1 million, up 130.3% on the prior year pro-forma equivalent. At the end of 2011, audited net 2P reserves were 115.2 MMboe, an increase of 30.2% over 2010 and of 43.1% over IPO levels, well above our 10% per annum long term reserves growth target. This 115.2 MMboe at the end of 2011 represents an excellent reserve replacement ratio of 419.4%.

Amjad Bseisu
Chief executive

This growth in reserves was driven partly by the Alma and Galia development project, and also by our active business development programme. These transactions brought further consolidation of EnQuest's existing asset positions and also took us into a number of new development projects.

In 2011 EnQuest put in place the organisational building blocks needed to ensure sustainable delivery of medium and long term growth. The substantial growth in reserves demonstrates EnQuest's ability to deliver sustainable production growth for the medium and the long term.

EnQuest's 2011 production of 23,698 Boepd represents a further consolidation of our position as the largest UK independent producer in the UK North Sea. The strong production performance reflected good growth at each of our three existing production hubs, we invested \$360.6 million in 2011, with nine wells drilled and four production wells brought on stream.



Reserves replacement ratio

↑ 419.4%

Production
Boepd

↑ 12.5%

Daily average net export production



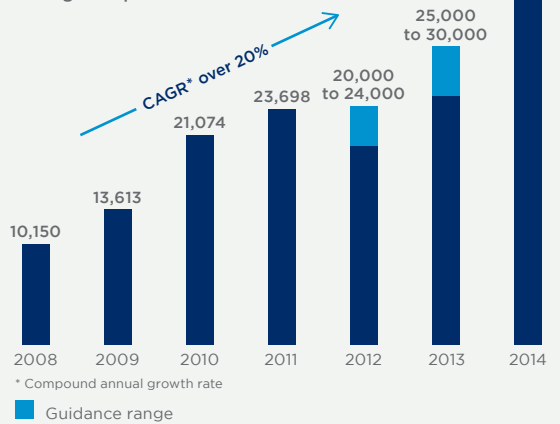
2P reserves
MMboe

↑ 30.2%

Net year end 2P reserves



Expecting to deliver over 20% compound annual growth
Between 2009 and 2014
Average net production



Implementing EnQuest's development and production focused strategy

With approximately 340 undeveloped fields in the UKCS, there is a significant opportunity for EnQuest in the UK North Sea, particularly in the smaller oil fields which we target. EnQuest is the right company in size, scale and financial strength to exploit the remaining opportunities in the North Sea and beyond. We are focused on both existing and new hubs, on low cost near field exploration and appraisal and on business development opportunities. Our business model extends asset lives to realise the untapped potential in maturing assets, as well as resources within undeveloped oil fields.

In 2011, through our hub focus, we added 29.3 MMboe to EnQuest's net 2P reserves for the Alma/Galia development. We delivered exploration successes with the Conrie and Crathes discoveries. Our execution skills are exemplified by our Conrie discovery and development which took less than eight months between discovery and first oil. The Kildrummy appraisal farm in agreed at the end of the year was the last of a steady flow of business development transactions in 2011.

EnQuest significantly increased its technical capabilities during 2011, enabling us to take on large development opportunities such as Alma and Galia, and more recently Kraken. Once we have identified opportunities, EnQuest uses its considerable expertise and capability to find and implement the right development solution to bring projects on stream in a timely and cost efficient manner.

A leading force in integrated development

In 2011, EnQuest developed its operations organisation at all levels. In Aberdeen we have what we believe is one of the best teams in the UK, leaders in innovative and cost efficient developments. The wells delivery team in particular has produced a number of industry leading performances, including a 12,650ft bit run for the Conrie exploration well in the Dons area.

These capabilities are a key differentiator and are critical to our ability to add value to the projects which EnQuest invests in. We have continued to add highly skilled industry professionals with extensive experience. This scale of

organisational development is critical to delivering EnQuest's ambitious growth plans. With the EnQuest workforce now more than double its size at flotation, we are ready for the next phase of our growth and beyond. The EnQuest development machine is in place.

Health, safety, environment and quality (HSEQ)

HSEQ is EnQuest's top priority. It is a critical and a deeply embedded part of our culture and values, and is integral to how we manage our business, with regard to people, installations and the environment in which we operate.

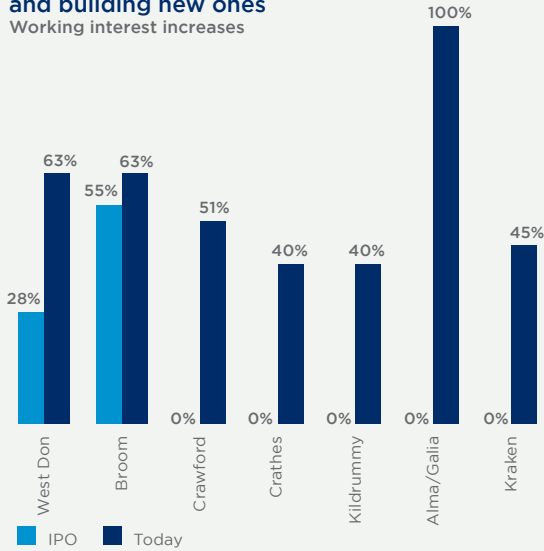
In 2011, EnQuest's safety performance was strong, achieving performance levels which were in the top quartile for the industry. We evolved and strengthened the HSEQ team with the appointment of a new head of Health, Safety, Environment and Quality, and with the creation of three other new professional positions. This additional focus will help to bring further rigour to our performance and operational HSEQ measures, reinforcing a proactive continuous improvement culture in all of our assets and development projects.





The Alma/Galia project exemplifies EnQuest's capabilities, deploying many of the skills and methodologies used on the successful Don fields development.

Consolidating IPO positions and building new ones
Working interest increases



EnQuest's first new hub – the Alma and Galia development

In November 2011, EnQuest gave its internal sanction to the Alma and Galia joint development, subject to anticipated regulatory approvals.

The Alma and Galia base case adds 29.3 MMboe to EnQuest's net 2P reserves, underpinning our medium term production growth. First oil is expected in Q4 2013, with peak gross production of over 20,000 Boepd. This project is anticipated to increase EnQuest's production levels to over 40,000 Boepd in 2014, approximately a two thirds increase on 2011. EnQuest intends to fund this development fully from current financial resources. EnQuest secured the Alma and Galia licences as part of the 26th licensing round, and the project was sanctioned less than a year after award. First oil is targeted two years from project sanction. Field Development Plan (FDP) approval is anticipated in the coming weeks, following which EnQuest expects to review a number of farm in proposals from potential partners.

The Alma/Galia project exemplifies EnQuest's capabilities, deploying many of the skills and methodologies

used on the Don fields development, with a fast track development solution, reusing an existing facility. The development will be tied back to the modified EnQuest Producer, a Floating Production, Storage and Offloading (FPSO) vessel. EnQuest took out an option to purchase this FPSO from Bluewater Operations Limited, and this was duly exercised in Q1 2012, for a cash consideration of \$52.5 million. Alma, originally named the Argyll field, was the very first oil field developed in the UK and was abandoned in 1992 at a 70% water cut. The EnQuest development plan is designed to be capable of processing high water cut levels in excess of 95%. Using established modern technology, the lives of these two fields can now be extended significantly.

Business development and EnQuest asset update

EnQuest's asset base continues to grow, Alma/Galia will be our fourth hub and will take us from seven to nine operated producing fields. In 2011, our business development efforts successfully demonstrated that there continue to be good opportunities in the North Sea, where we consolidated our positions in existing assets, as well as entering into new appraisal and development opportunities.

In May 2011, EnQuest agreed to increase its interest in Crawford/Porter from 19% to 51%, in exchange for carrying the previous operator's development costs, up to a maximum of \$55.8 million. In August 2011, EnQuest announced an increase in its stake in the producing Broom field, up by 8% to 63% for \$7.5 million, increasing net 2P reserves by almost 1 MMboe. At the same time, EnQuest announced its farm in to the Crathes prospect, taking a 40% interest and assuming operatorship for zero consideration. The subsequent exploration well at Crathes was successful and EnQuest is evaluating the potential commerciality of the Scolty, Crathes and Torphins area. Finally, in November 2011, EnQuest agreed to farm in to a 40% interest in the Kildrummy discovery, and to assume operatorship of the project.

EnQuest's acquisition model is predicated on the value we can add to projects through our integrated development skill set, rather than on being able to secure assets below market value. EnQuest maintains a disciplined and rigorous approach to reviewing potential opportunities, requiring projects and acquisitions to meet returns criteria dependent on the specific risk profile.



Another strong financial performance – cash flow from operations of \$656.3 million

Profit before tax and net finance costs increased by 130.3% on the prior year pro-forma equivalent to \$390.1 million. Pre-exceptionals EBITDA rose by 70.3% to \$629.1 million and cash flow from operations was up 145.2% to \$656.3 million, both driven by the increased production and the increase in the oil price. The same factors led to a 110.0% increase in reported cash flow from operations per issued Ordinary share, up to 81.9 cents per share from 39.0 cents per share in 2010. EnQuest continues to have a strong balance sheet, with net cash at the year end of \$378.9 million, up substantially from the \$41.4 million at the end of 2010. The unit cost of sales production and transportation was \$31.9 per Boe in 2011, up on the pro-forma \$30.4 per Boe in 2010. The increase was related to the net impact of the costs of the Thistle shutdown programme and the Don Southwest well intervention, offset by production increases from the Don and Thistle fields. Capital expenditure was \$360.6 million in 2011, this included expenditure in relation to EnQuest's sanctioning of the Alma/Galia project in Q4 2011, ahead of first drilling on Alma/Galia in Q1 2012. The total investment in Alma/Galia in 2011 was approximately \$80 million, with around \$95 million of capital expenditure on Thistle, \$80 million on the Don fields and \$30 million on Heather.

2012 highlights so far

Business development in 2012 has started strongly with several substantial transactions already negotiated. EnQuest agreed the acquisition of 45% of the Kraken discovery, with 20% being acquired from Canamens Limited for \$45 million in cash and a further \$45 million payable at FDP, and a further 25% acquired from Nautical Petroleum plc (Nautical) through a development carry. The Kraken development has substantial potential, with the surrounding areas also bringing additional exploration and appraisal opportunities. EnQuest has also agreed a farm in option for 45% of the nearby Ketos discovery.

With its technical skills, operational scale and financial strength, EnQuest is increasingly becoming the natural partner of choice for integrated development projects in the UKCS and beyond. If Kraken proceeds to

sanction and development, the timing of the anticipated cash flows from Alma/Galia will be complementary to the funding of Kraken.

Since the start of the year EnQuest has also agreed to acquire an additional 18.5% interest in West Don, from JX Nippon Exploration and Production (UK) Ltd ('JX') for a cash consideration of \$34 million. The acquisition also includes tax allowances of \$2 million. This transaction takes EnQuest to a 63.45% position in West Don. We are proud of our considerable achievement on the Don fields and pleased to be further consolidating our position on West Don. Completion of the transaction is subject to co-venturer approvals.

In Q1 2012, EnQuest established a new \$900 million Multi-Currency Revolving Credit Facility, comprising of a committed amount of \$525 million with a further \$375 million potentially available primarily for acquisitions. This facility replaces the previous \$280 million facility which expired in Q1 2012. EnQuest is pleased with the support it received from the lending institutions which provided the new facility.

Outlook and plans for 2012 and beyond

Despite particularly difficult weather conditions in the Northern North Sea in Q1 2012, production year to date in 2012 has been in line with expectations and consequently EnQuest reaffirms its previous annual production guidance of between 20,000 Boepd and 24,000 Boepd.

Over the course of 2012, EnQuest's extensive programme encompasses the drilling of at least 11 wells, two on Thistle/Deveron, four on the Dons, three from batch drilling on Alma/Galia, an exploration well at Tryfan and an appraisal well at Kildrummy. EnQuest will also complete the power upgrade installation at Thistle and the rig reactivation programme at Heather. EnQuest's 2012 capital investment will be approximately \$1,000 million, with around \$500 million at Alma/Galia. This is EnQuest's most active annual work programme so far and we believe that it is one of the largest 2012 capital expenditure and drilling commitments in the North Sea. It is a programme which should provide a contribution to reserves and production in 2012 and also provide a bedrock for future reserves and production growth.

The substantial growth in reserves demonstrates EnQuest's ability to deliver production growth for the medium and the long term.

Proven and probable reserves (net 2P MMboe)

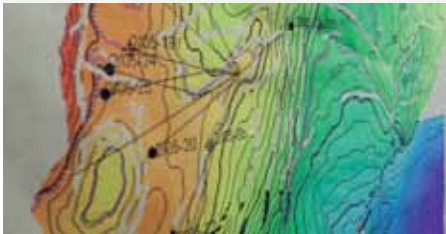
At 1 January 2011	88.51
Production during 2011	(8.36)
Revisions to estimates	4.55
Discoveries, extensions and additions	29.69
Acquisitions	0.82
As at 31 December 2011	115.21

Contingent resources (net MMboe)

At 1 January 2011	105.06
Revisions to estimates	10.97
Discoveries, extensions and additions	11.87
Acquisitions	31.78
Disposals	(13.56)
Promoted to reserves	(29.34)
As at 31 December 2011	116.78

▶ For detail see [page 21](#).





With EnQuest's technical skills, operational scale and financial strength, EnQuest is increasingly becoming the natural partner of choice for major integrated development projects in the UKCS.

EnQuest welcomes the recent oil and gas fiscal adjustments in the UK 2012 Budget and looks forward to working with the Government and the industry to achieve the optimum development of the unrealised potential in the UK North Sea. EnQuest believes that these positive fiscal changes are steps in the right direction to bring small field developments to sanction.

EnQuest has met the cumulative reserves and production growth targets we set at the time of our IPO and our track record is proving that we can sustainably deliver substantial growth in reserves, production and in cash flow. Today we have three producing hubs, with a fourth hub in development and in Kraken a potential fifth hub. At the end of 2011, EnQuest had 22 production licences covering 27 blocks or part blocks, with EnQuest operating 19 of these licences. These include at least five discoveries on which developments are being actively considered. We are building our inventory on the mature Thistle and Heather fields and extending the lives of those fields which have the potential of substantial remaining oil in place combined with recovery levels which are still

materially below those of analogous fields. We have been steadily growing and diversifying our asset base, and have added both capacity and capability to our workforce. This operational strength is underpinned by a very strong balance sheet and substantial borrowing capacity, even after the major investment we have commenced in Alma/Galia. EnQuest has the technical skills, the operational scale and the financial strength to be a powerful development and production company in 2012 and far beyond.

Our track record is proving that we can sustainably deliver substantial growth in reserves, production and in cash flow.





Profit before tax and net finance costs increased by 130% to \$390 million.

EBITDA
 \$ million

↑ 70.3%

2011	629.1
2010	369.3

Abridged Group income statement for the year ended 31 December 2011

	2011			2010 Pro-forma*		
	Business performance US\$'000	Exceptional items and depletion of fair value uplift US\$'000	Total for period US\$'000	Business performance US\$'000	Exceptional items and depletion of fair value uplift US\$'000	Total for period US\$'000
Revenue	935,974	-	935,974	614,357	-	614,357
Cost of sales	(491,817)	(16,973)	(508,790)	(406,403)	(16,319)	(422,722)
Gross profit/(loss)	444,157	(16,973)	427,184	207,954	(16,319)	191,635
Exploration and evaluation expenses	(36,962)	-	(36,962)	(22,987)	(57,870)	(80,857)
Gain on disposal of asset held for sale	-	8,644	8,644	-	-	-
Impairment on available for sale assets	-	(12,497)	(12,497)	-	-	-
Impairment of oil and gas assets	-	-	-	-	(2,121)	(2,121)
Well abandonment expenses	-	8,194	8,194	-	(8,194)	(8,194)
General and administration expenses	(16,049)	-	(16,049)	(17,126)	(13,432)	(30,558)
Other (expenses)/income, net	(1,050)	-	(1,050)	1,546	-	1,546
Profit/(loss) from operations before tax and finance income/(costs)	390,096	(12,632)	377,464	169,387	(97,936)	71,451
EBITDA**	629,102	8,194	637,296	369,342	(21,627)	347,715

Notes:

* In April 2010 EnQuest PLC acquired the demerged UK North Sea assets of Petrofac Limited and Lundin Petroleum AB respectively. This transaction was 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 54 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. The results of EnQuest are included from its incorporation date of 29 January 2010. This abridged 2010 pro-forma income statement presents the trading results for both LNS and PEDL from the start of the calendar year, as though PEDL was part of the Group for the full year ended 31 December 2010.

** EBITDA is calculated by taking profit/(loss) from operations before tax and finance income/(costs), deducting gain on disposal of asset held for sale (note 14) and adding back depletion (note 10), depreciation (note 10), impairment (notes 13 & 15) and write off of tangible and intangible oil and gas assets (notes 13 & 15). EBITDA is not a measure of financial performance under IFRS.



Q & A WITH THE ENQUEST EXECUTIVE

Amjad Bseisu
Chief executive

Nigel Hares
Chief operating officer

Jonathan Swinney
Chief financial officer

EnQuest has more than doubled the size of its workforce since IPO, attracting top industry talent; we now have the capacity and the scalability to deliver additional projects.

Q. The Alma and Galia development requires EnQuest to commit a substantial proportion of its financial fire power to one project, are you comfortable with what is such a very concentrated risk exposure for EnQuest? What financial capacity does it leave you with?

A. Based on the Field Development Plan (FDP) case, Alma/Galia can be financed internally and it is a project in which we would potentially be willing to retain a 100% interest. There is also merit in diversification and a farm in could improve the overall economics of the project. Following FDP approval by the Department of Energy and Climate Change ('DECC'), EnQuest expects to consider farm in proposals.

Q. Setting aside the financial issues, simply in terms of your operational organisation, what spare capacity do you have to respond to other opportunities?

A. EnQuest has more than doubled the size of its workforce since IPO, attracting top industry talent; we now have the capacity and the scalability to deliver additional projects.



EnQuest manages its fields for their full maximum economic Life of Field potential.

Q. Should we expect EnQuest to roll its model out internationally?

A. In due course yes, as we have always said the EnQuest model will work outside of the UKCS. EnQuest will always seek to apply its skill set to add value to the specific situation in question, but when we do move outside the UKCS, you should expect to see some or all of the familiar EnQuest model features. These include proven high quality petroleum systems, mature basins being exited by the majors, operational control, low risk, near field exploration potential, bookable reserves, and no deep water or harsh environments. We would however envisage only a small number of additional geographies, and the UKCS will remain our main area for many years to come.

Q. EnQuest is very cash generative, based on analysts' forecasts, you could buy back your own market capitalisation in two or three years. Given that you are so cash rich why would you not pay a dividend now?

A. EnQuest believes that it can generate more attractive returns for investors by reinvesting in our core business and that we have a steady pipeline of such investment opportunities set to drive sustainable long term growth in reserves and production. Payment of a dividend will continue to be reassessed on a regular basis.

Q. EnQuest says that it has a Life of Field approach to its assets, what does that mean?

A. EnQuest manages its fields for their full maximum economic Life of Field potential. Some asset owners focus only on the short timescale over which production from the fields can make a contribution which is material to them – resulting in premature decommissioning, a loss of host field reserves and the effective sterilisation of adjacent discoveries and prospects. EnQuest on the other hand is focused on the full life cycle and will bring new investment, new ideas and a new enthusiasm to the field, resulting in additional development and investment.

Q. The EnQuest model may work when oil is priced at over \$100 per barrel but how viable would large projects like Alma/Galia be at lower levels?

A. We naturally test all of our projects at a range of oil prices and do not extrapolate what may be temporarily high prices over the life of a development. Our base case project assumptions for projects in 2011 have therefore been well below prevailing oil price levels and we stress test them at considerably lower price scenarios than those assumed in our base case.

Q. Is the scale of EnQuest's exploration not too small to be worth investing in, are you disappointed with the results so far?

A. Our exploration strategy is focused on low cost near field exploration and appraisal projects, with reasonable chances of success. It is a component of our strategy. Because they are usually near field, our exploration wells may cost as little as \$10 million to \$15 million. With two successes out of six wells drilled since IPO, our success rate has been as we anticipated. Exploration is not EnQuest's main growth driver, but it does provide potential, sometimes material upside, and normally with only a low level of initial investment at risk.



RISKS AND UNCERTAINTIES

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
<p>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.</p>	<p>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. The Group has established a Corporate HSE committee which meets quarterly. HSE performance is discussed at each Board meeting.</p> <p>In addition, the Group has a positive, transparent relationship with the UK Health and Safety Executive.</p>
<p>Production The Group's production is critical to its success and is subject to a variety of risks including uncertain subsurface, operating in a difficult environment with mature equipment and potential for significant unexpected shutdowns and unplanned expenditure to occur.</p> <p>Lower than expected reservoir performance may have a material impact on the Group's results.</p> <p>The Group's delivery infrastructure on the UKCS is dependent on the Sullom Voe Terminal.</p>	<p>The Group's programme of asset integrity and assurance activities provides leading 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 and inspection 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.</p> <p>Life of asset production profiles are audited by independent reserves auditors. The Group also undertakes regular internal peer reviews. The Group's forecasts of production are risked to reflect appropriate production risks.</p> <p>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 and users to ensure that operational integrity is maintained.</p>
<p>Project Execution The Group's success will be dependent upon bringing new developments to production on budget and on schedule. The Alma and Galia development is the Group's first since inception and it involves significant capital expenditure. To be successful, the Group must ensure that project implementation is both timely and on budget. Failure to do so may have a material negative impact on the Group's performance.</p>	<p>The Group has project teams which are responsible for the planning and execution of such new projects with a dedicated team for each development. The Group has detailed controls, systems and monitoring processes in place to ensure that deadlines and budgets are met and that design concepts and Field Development Plans are adhered to and implemented. These are modified when the circumstances require and only through controlled process and with the necessary internal and external authorisation. In the case of the Alma and Galia development, the major contracts have been procured and are in place. EnQuest ensures that responsibility for delivering time critical supplier obligations and lead times are fully understood, acknowledged and proactively managed by the most senior levels within supplier organisations.</p>
<p>Reserve Replacement Failure to develop its contingent and prospective resources or secure new licences and/or asset acquisitions and realise their expected value.</p>	<p>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 enable it to manage existing assets and evaluate the acquisition of new assets and licences. All analysis is subject to internal, and where appropriate, external peer review. All reserves are externally audited by a Competent Person every year.</p>



Risk

Mitigation

<p>Financial Inability to fund appraisal and development work programmes.</p>	<p>The Group has secured appropriate bank facilities to fund its development activities. 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.</p>
<p>Human Resources The Group's success is dependent upon its ability to attract and retain key personnel.</p>	<p>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.</p> <p>To enable the Company to meet its growth aspirations, the Group is undertaking a number of human resource initiatives. These 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.</p> <p>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.</p>
<p>Reputation The reputational and commercial exposures to a major offshore incident are significant.</p>	<p>Operational activities are conducted in accordance with approved policies, standards and procedures. Interface agreements are agreed with all core contractors.</p> <p>The Group undertakes regular audit activities to provide assurance on compliance with established policies, standards and procedures.</p>
<p>Oil Price A material decline in oil and gas prices may adversely affect the Group's results of operations and financial condition.</p>	<p>The Group monitors oil price sensitivity relative to its capital commitments and has a policy which allows hedging of up to 50% of its production.</p> <p>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.</p>
<p>Political and Fiscal Changes in the regulatory or fiscal environment affecting the Group's ability to deliver its strategy.</p>	<p>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 to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations.</p> <p>At a more operational level, the Group has procedures to identify impending changes in relevant regulations to ensure legislative compliance.</p>
<p>Joint Venture Partners Failure by joint venture parties to fund their obligations.</p> <p>Dependence on other parties where the Group is not the operator.</p>	<p>The Group operates regular 'cash call' and 'billing' 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.</p> <p>The Group generally sets out to be the operator. The Group maintains regular dialogue with its partners to ensure alignment of interests and to maximise the value of joint venture assets.</p>
<p>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 procurement of oil and gas services and access to human resources.</p>	<p>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.</p> <p>The Group also has strong technical and business development capabilities to ensure it is well positioned to identify potential acquisition opportunities.</p> <p>The Group has good relations with oil and gas service providers and constantly keeps the market under review.</p> <p>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.</p>



OPERATING REVIEW

Overview

In 2011 EnQuest delivered a good operational performance. Production increased by 12.5% for the year 2011 over 2010. EnQuest started 2011 with 2P reserves of 88.51 MMboe and produced 8.4 MMboe during 2011. Audited year end reserves grew by 30.2% to 115.21 MMboe, with a large part of the increase due to the Alma/Galia development which added net 2P reserves of 29.3 MMboe. This is equivalent to a reserves replacement ratio of 419.4%. EnQuest increased contingent resources to 116.78 MMboe at the end of 2011. Nine wells were finished during the year (eight of these were operated by EnQuest) and two new exploration discoveries were made at Conrie and Crathes.

Nigel Hares
Chief operating officer

A good HSEQ performance was achieved, with top quartile performance on the key measures of lost time accidents and recordable injuries. A new head of HSEQ was appointed and a proactive HSEQ programme with more emphasis on leading indicators was developed.

The EnQuest operating organisation was developed significantly during the year, to prepare for new projects. During the year the leadership team in Aberdeen was strengthened. In addition, the engineering and the new developments teams were trebled in size, and the drilling team was doubled in size.

2011 operational summary

Two wells were drilled on Thistle and Deveron in 2011, following the 2010 rig refurbishment and drilling facilities upgrade. This resulted in Thistle producing at its highest annual rate for over ten years.

At Heather and Broom, following the subsurface review in 2010, 2011 was focused on the first phases of the oil rig reactivation programme. Production at Heather and Broom delivered the strongest growth of all of our hubs, up 20%, partly due to the new pipeline installed between the fields in 2010.

The Don fields contributed over 50% of our total production in 2011. Production for the year also benefited from the discovery in early 2011 of the Conrie field, with the S7 well coming on stream in August 2011. Both this S7 well and the S8Z well in Area 6 of the Don Southwest



Producing Oil Fields

Thistle and Deveron

Working interest

- 99% in both fields

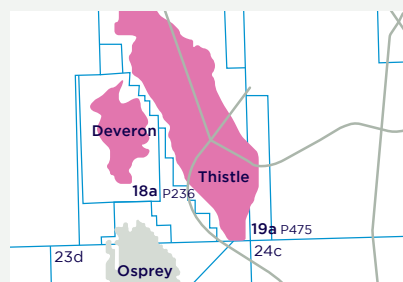
Decommissioning liabilities

- remain with former owners (apart from new incremental developments since acquisition)

Fixed steel platform

Daily average net production

- 2011: 5,436 Boepd
- 2010: 4,836 Boepd



The Don and Conrie Fields

Working interests

- Don Southwest, 60%
- Conrie, 60%
- West Don, 44.95% (an increase to 63.45% was agreed in Q1 2012)

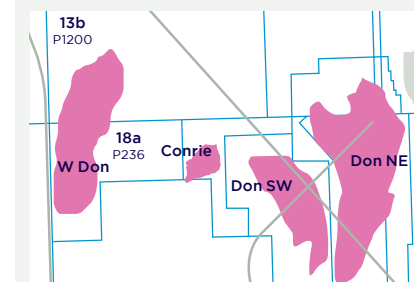
Decommissioning liabilities

- as per working interests

Floating production unit with subsea wells

Daily average net production

- 2011: 12,770 Boepd
- 2010: 11,660 Boepd on a pro-forma basis



field produced less oil in 2011 than was anticipated at the time of EnQuest's production outlook guidance in April 2011, and revised production guidance was issued in September 2011. Following this quicker than expected initial decline from S8Z, production from the S8Z and S9 injector pair subsequently stabilised.

EnQuest's exploration strategy is focused on low cost, near field opportunities. Two exploration discoveries were made in 2011. In January 2011, a discovery was made at Conrie near the Don fields; this was completed and on production by August 2011. Later in 2011 a further discovery was made at Crathes. EnQuest is evaluating the potential commerciality of the combined Crathes, Scolty and Torphins area. In 2011 unsuccessful exploration wells were drilled at Don Southwest Area 26, Ivy, Moon and the non-operated Tudor Rose.

Outlook for 2012

The 2012 programme is substantially larger than the 2011 programme. As well as continuing to operate and develop our existing seven production fields, the drilling programme will expand to three operated drilling rigs. Eleven new wells will be drilled. Detailed design, procurement and construction of the Alma/Galia project will continue. Assessment of the Crawford field and the Crathes/Scolty area for development will also continue. In addition, EnQuest will play a leading role in the recently announced acquisition of the Kraken field development. Total capital expenditure for 2012 is expected to be around \$1,000 million.

Thistle and Deveron

2011

Production at Thistle/Deveron achieved a net 5,436 Boepd in 2011, up 12.4% on 2010, despite poorer power generating uptime which impacted on water injection. Two new wells were finished during the year. A56/13 was the first well on Thistle to be completed with an electric submersible pump; this well came on stream in May 2011 at slightly above the expected rate. A57/58 came on stream in October 2011 at a higher rate than expected. The Deveron P1 well was delayed into 2012. As a result of the poor power generation uptime a new project was sanctioned to build a new 30 MW power generation turbine due for completion at the end of 2012. This will enhance future water injection uptime.

2012

In 2012 two new wells will be finished, the DEV-P1 and the Area 6-P1 well, there will also be three workovers and an abandonment. In Q4 2012 the rig crew will transfer to Heather to commence drilling and will later return to Thistle. The new 30 MW power generation package will start up in late 2012. In addition, with the success of the drilling on Thistle, a series of projects for control and safety system upgrade, process simplification, structural integrity and topsides integrity will be defined in 2012.

The Don and Conrie Fields

2011

Production at the Dons and Conrie achieved a net 12,770 Boepd in 2011, up 9.5% over 2010. This was somewhat less than expected as both the Conrie well and Don Southwest S8Z wells had lower initial production rates than expected, although this has not impacted reserves. The Conrie well discovery was made early in 2011; the development plan was prepared, the well completed and brought on production less than eight months from discovery. A new producer injector pair was drilled successfully in 2011. The S8Z well came on production in Q3 2011 and was later supported by the S9 water injection well. A Don Southwest Area 26 sidetrack appraisal well was drilled, but found sub commercial hydrocarbons. A workover was performed on the Don Southwest S2Z well.

2012

In 2012 four new wells will be drilled in the Don fields. At West Don a new W5 water injection well will be drilled to support the highly successful W4 production well, and an updip sidetrack to well W2 will be drilled as a producer at the crest. In Don Southwest a new production well will be drilled at the highest point of the horst, and also a further well updip of S1. In Q1 2012 EnQuest agreed the acquisition of a further 18.5% working interest in West Don, increasing the interest in West Don to 63.45%.

Heather and Broom

Working interest

- Heather, 100%
- Broom, 63% (increased by 8% through acquisition, with effect from 1 July 2011)

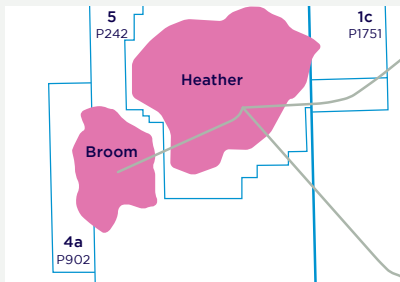
Decommissioning liabilities

- Heather, 37.5%
- Broom, 63%

Fixed steel platform

Daily average net production

- 2011: 5,492 Boepd
- 2010: 4,578 Boepd (based on the 55% working interest in 2010)



Alma and Galia Development

Working interest

- 100% in both fields

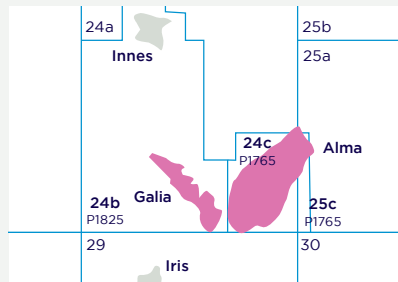
Decommissioning liabilities

- 100% in both fields

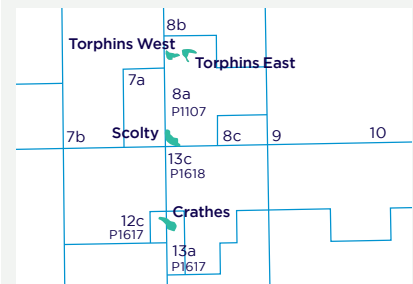
Floating Production, Storage and Offloading unit with subsea wells

First oil anticipated Q4 2013

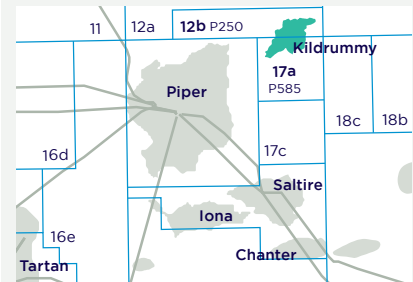
- Gross peak production to be in excess of 20,000 Boepd



Crathes, Scolty and Torphins



Kildrummy



Heather and Broom

2011

Production at Heather/Broom achieved a net 5,492 average Boepd in 2011, up 20.0% on 2010. This resulted from the benefit of the mid-year increase in EnQuest's working interest in Broom from 55% to 63% and from better than expected performance from the existing well stock. The Broom field also had a full year's benefit of the new Broom to Heather flowline which was installed in 2010.

In H1 2011 hydrocyclones were successfully installed and commissioned on Heather to improve oil in produced water.

The Heather drilling rig upgrade programme started in H1 2011, in preparation for a development drilling programme planned to start in Q4 2012.

In H2 2011 an unsuccessful exploration well was drilled on the Ivy prospect, south of Heather.

2012

The first drilling on Heather in six years will start in Q4 2012 with an initial programme of nine wells. We have commissioned new 2012 seismic across Heather and Broom and expect this will further enhance our infill drilling programme, this analysis will also cover the area between Heather and Broom.

Alma and Galia Development

2011

These fields previously called Argyll and Duncan were awarded to EnQuest in the 26th licence round in early 2011.

EnQuest has designed a redevelopment project with nine wells to recover 29 MMboe of 2P reserves with first production anticipated in Q4 2013 at a gross peak rate of over 20,000 Boepd.

Opportunities on other EnQuest blocks

Crathes, Scolty and Torphins

In Q4 2011, EnQuest's Crathes exploration well, 21/13a-5 encountered a 52ft light oil column in excellent quality Palaeocene sands. Following this result, EnQuest plans to evaluate the potential commerciality of the Scolty, Crathes and Torphins area. EnQuest acquired its 40% interest in Crathes through a farm in earlier in 2011.

Crawford

EnQuest is evaluating development options for the Crawford field and expects to make a decision regarding development during 2012.

Kildrummy

EnQuest agreed a farm in to a 40% interest in the Kildrummy discovery on 15/12b and 15/17, by drilling an appraisal well. The discovery is estimated to contain 40 MMboe of original oil in

place in excellent reservoir sands, 8km from the Piper platform. EnQuest has assumed the operatorship of Kildrummy and will operate the appraisal well, which is expected to be drilled in 2012. If the appraisal is successful, EnQuest will also operate any subsequent field development project.

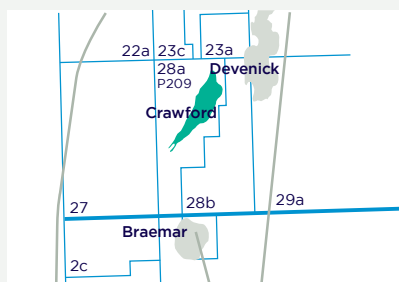
Kraken

In early 2012, EnQuest acquired a 45% interest in the Kraken discovery and anticipates becoming the operator of the proposed development of Kraken. The transaction also gives EnQuest an agreed farm in to the adjacent Ketos discovery, which is to be appraised.

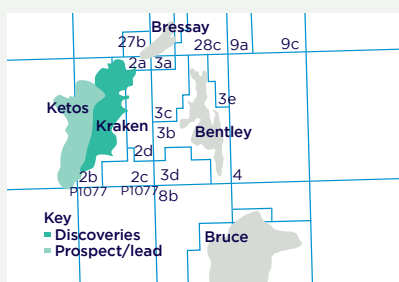
Kraken is a large heavy oil accumulation in the UK North Sea, located in the East Shetland basin, to the west of the North Viking Graben. The joint venture partners are working towards first oil in 2015.



Crawford



Kraken



EnQuest oil and gas reserves and resources at 31 December 2011

	UKCS MMboe	Other regions MMboe	Total MMboe
Proven and probable reserves (notes 1, 2, 3 & 6)			
At 1 January 2011		88.51	88.51
Revisions of previous estimates		4.55	4.55
Discoveries, extensions and additions (note 7)		29.69	29.69
Acquisitions (note 8)		0.82	0.82
Production:			
Export meter	(8.65)		
Volume adjustments (note 5)	0.29		
		(8.36)	(8.36)
Proven and probable reserves at 31 December 2011		115.21	115.21
Contingent resources (notes 1, 2 & 4)			
At 1 January 2011		96.99	105.06
Revisions of previous estimates		10.97	10.97
Discoveries, extensions and additions		11.87	11.87
Acquisitions		31.78	31.78
Disposals	(10.50)	(3.06)	(13.56)
Promoted to reserves	(29.34)	-	(29.34)
Contingent resources at 31 December 2011		111.77	116.78

Notes:

- Reserves and resources are quoted on a working interest basis.
- Proven and Probable Reserves and Contingent Resources have been assessed by the Group's internal reservoir engineers, utilising geological, geophysical, engineering and financial data.
- The Group's Proven and Probable Reserves have been audited by a recognised Competent Person in accordance with the definitions set out under the 2007 Petroleum Resources Management System and supporting guidelines issued by the Society of Petroleum Engineers.
- Contingent Resources relate to technically recoverable hydrocarbons for which commerciality has not yet been determined and are stated on a best technical case or '2C' basis.
- Conversion of export to sales volumes.
- All volumes are presented pre SVT value adjustment.
- The Conrie field was discovered and brought on line. Contingent Resources have been reclassified as reserves following the preparation of the Field Development Plans for Alma and Galia.
- An additional 8% equity in Broom was acquired in 2011.





Alma and Galia will be EnQuest's fourth hub

Alma and Galia

- Proven oil fields
- Adding 29 MMboe to EnQuest's net 2P reserves
- Set to drive production from 23,698 Boepd in 2011 to over 40,000 Boepd in 2014
- Development consists of seven production wells and two water injection wells
- Tied back to the EnQuest Producer Floating Production, Storage and Offloading (FPSO) vessel

↑ 20,000 Boepd

Gross peak production is anticipated to exceed 20,000 Boepd

TECHNICAL SKILLS

↑ 307
million barrels of
original oil in place

(STOIIP MMboe 307.0)
Only 30% recovered so far

Amjad Bseisu, Chief Executive:

"The Alma and Galia development shows the continuing growth of EnQuest and the breadth and depth of our integrated capabilities, from subsurface to production. The project reuses existing facilities and is designed to ensure that abandonment costs will be minimised. Alma, formerly the Argyll field, was the first oil field in the UK, and was abandoned at relatively low water cut using the technology available at the time. With current technology, field life can be extended significantly. This type of opportunity fits the EnQuest model of finding fresh opportunities in mature assets.

The Alma and Galia development provides a material increase of approximately 29 MMboe in EnQuest's reserves and underpins our medium term production growth profile. This is EnQuest's largest new project so far and the first new hub since our IPO."





Q4 2013

First oil is anticipated in Q4 2013

DELIVERING ALMA AND GALIA

USING ESTABLISHED MODERN TECHNOLOGY TO REDEVELOP THE FIRST OILFIELD IN THE UK NORTH SEA.

FAST TRACK

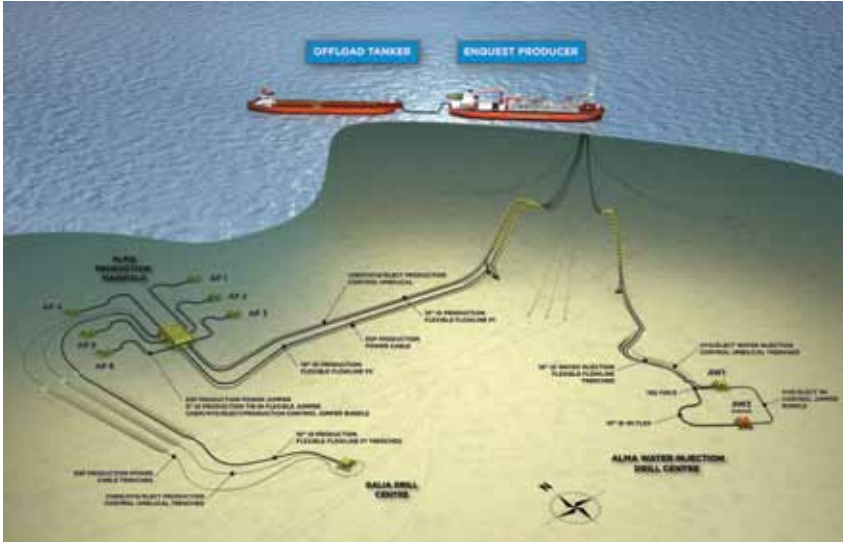
A fast track project, with a fast track development solution





“Using EnQuest’s subsurface and development expertise we have put together what is a truly exciting redevelopment project, one which works well with its base case and one which also has substantial additional potential.”

Craig Matthew,
New Developments Manager



TECHNICAL SKILLS

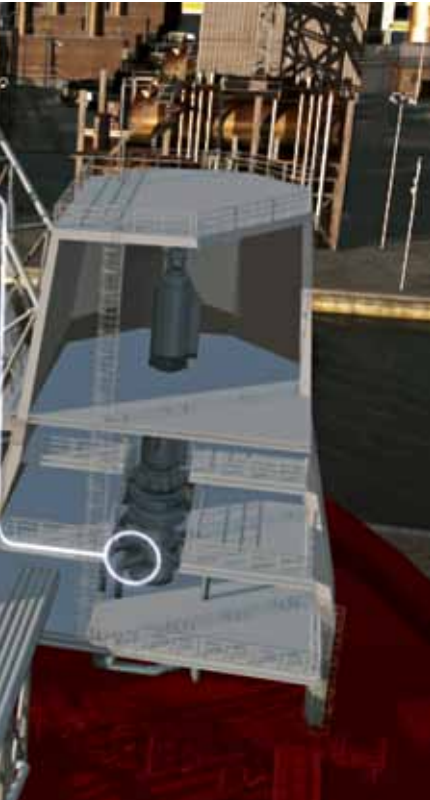
A LEADING FORCE IN INTEGRATED DEVELOPMENT

Differentiated expertise providing a different approach to a mature oil field

What is EnQuest doing differently?

- Reprocessed seismic allowing targeting of attic oil and unswept areas
- Dedicated wells to each of the three productive reservoirs (Devonian/Rotliegend/Zechstein)
- Variable speed downhole electrical pumps sized for the productivity of each well will allow wells to produce in excess of 95% water cut
- Provision of pressure support through water injection





'THE ENQUEST PRODUCER' FLOATING PRODUCTION, STORAGE AND OFFLOADING VESSEL

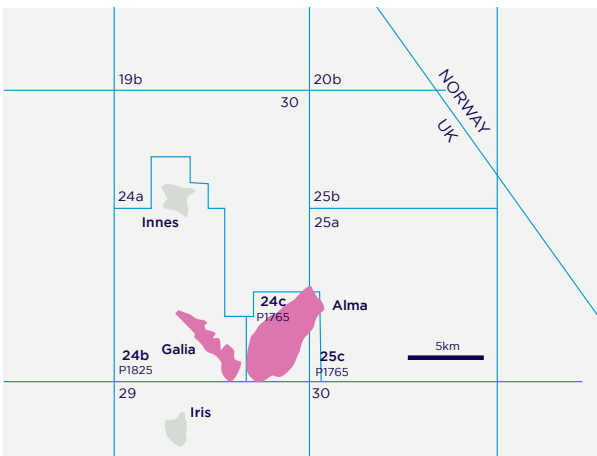
Length	248.3m
Dead weight tonnage	92,000Dwt
Deck area	7,390sq m
Oil processing	57,000 Bbl/day
Produced water handling and water injection	90,000 Bbl/day
Crude oil storage	625,000 barrels



↑ 95%

The development plan is designed to be capable of processing high water cut levels in excess of 95%, the Alma field was previously abandoned at water cut levels of 70%

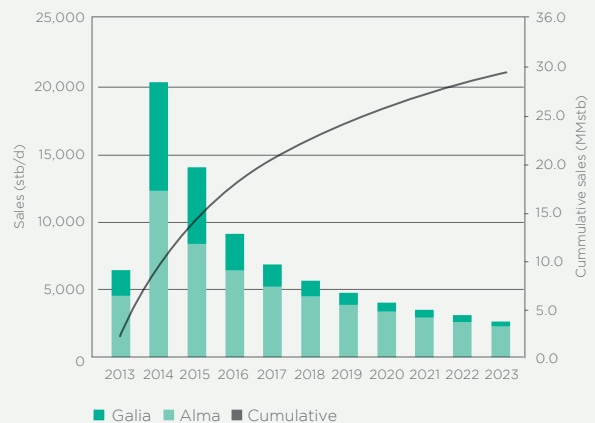
Alma and Galia location and regional setting



ALMA AND GALIA KEY FACTS

- Blocks 30/24 and 30/25
- 310km south east of Aberdeen
- Water depth approximately 80m
- Reservoir depth approximately 9,000ft
- Distance from EnQuest Producer to Alma, 2.1km
- Distance from Alma to Galia, 5.4km
- Six ESP wells on Alma, dual ESP completion
- One ESP well on Galia, dual ESP completion
- Two water injection wells at the Alma water injection drill centre

Alma/Galia combined profiles and reserves



Combined development
 Alma: 20.75 Galia: 8.6 **Total: 29.3 MMboe**



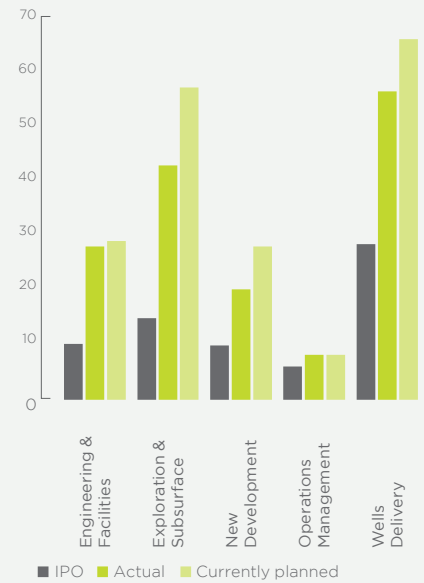


EnQuest has established a centre of excellence in Aberdeen, with a breadth and depth of operational expertise normally only seen in significantly larger companies.

LEVERAGING OUR OPERATIONAL SCALE



With the EnQuest workforce more than double its size at flotation, we are now ready for the next phase of our growth and beyond. We have trebled our general engineering capacity, trebled geoscience, nearly trebled the size of our developments team and we have more than doubled the wells team to accommodate our expanding drilling programme.



Direct workforce

300

Workforce including offshore contractors

1,300

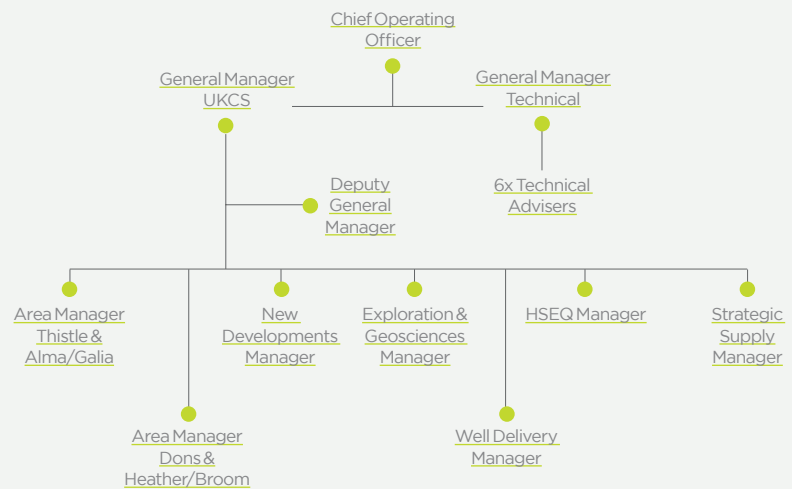


EnQuest's operational capabilities have grown very considerably. In 2011, EnQuest developed its operations organisation at all levels, creating what we believe is one of the best teams in the business; leaders in innovative cost efficient developments, with EnQuest's values deeply embedded in its culture.

These capabilities are a key differentiator and a critical enabler in terms of EnQuest's ability to add value to the projects it invests in. The steady flow of our programme of work has enabled us to keep our development teams together and facilitates the benefits of continuity.

Our operational capacity is now in place, essentially ready to deal not only with all the developments we have sanctioned already, but also with the other major developments which we are now actively considering.

Operations organisation
 Increase in strength and depth in all key disciplines



Engineering & Facilities
 11x Project Engineers
 9x Technical Specialists
 2x Development Engineers
 5x Other

Exploration & Subsurface
 3x SSTL
 14x Geologists
 11x Geophysicists
 10x Reservoir Engineers
 5x Petroleum Engineers
 2x Petrophysicists

New Developments
 2x Project Managers
 Team of over 20

Well Delivery
 13x Drilling Staff
 24x Drilling Consultants
 Additional capacity outsourced



With a strong balance sheet and high levels of cash generation, EnQuest can fund projects such as Alma/Galia internally. The net cash position at the end of 2011 and the new credit facility provide \$1,279 million of funding for EnQuest's capital programme and future investment opportunities.



- > EBITDA \$629.1 million
- > Net cash of \$378.9 million
- > New credit facility of \$525 million, with 'accordion' up to \$900 million

Cash flow from operations

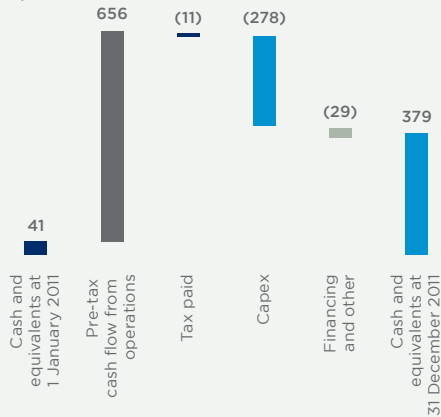
↑ 2011: \$656.3m
2010: \$267.7m

Revenue

↑ 2011: \$936.0m
2010: \$614.4m

Cash flow

US\$ million



INVESTING
FOR GROWTH

Cash flow and liquidity

The Group's reported cash generated from operations in 2011 increased to \$656.3 million (2010: \$267.7 million), resulting mainly from the combination of higher average reported realised oil prices and additional production volumes in 2011 compared with 2010.

DEPLOYING OUR
CONSIDERABLE
FINANCIAL
STRENGTH





Cash outflow on capital expenditure in 2011 included the following significant projects:

- expenditure on the Alma and Galia joint development
- drilling and completing Don Southwest S8Z and S9 development wells
- drilling and completing Conrie S7 development well
- West Don W1 intervention well drilling programme
- drilling and completing the Thistle A56/13 and A57/58 development wells, and drilling of the Thistle DEV-P1 development well, which was completed in Q1 2012
- Thistle power generation upgrade programme
- Heather rig reactivation programme
- Crathes exploration and appraisal well

Net cash at 31 December 2011 amounted to \$378.9 million compared to \$41.4 million in 2010.

In Q1 2012, in anticipation of the maturing of the existing \$280 million Revolving Credit Facility Agreement, the Group established a \$900 million Multi-Currency Revolving Credit Facility Agreement with Lloyds TSB Bank, Bank of America Merrill Lynch, Barclays, BNP Paribas, Crédit Agricole, CIB, NIBC Bank, and Royal Bank of Scotland.

The Group has a strong liquidity position at 31 December 2011, with \$378.9 million of cash and cash equivalents despite undertaking a significant capital expenditure programme, with \$277.9 million related cash outflow in the year.



FINANCIAL REVIEW

Financial overview

In the year ended 31 December 2011, the Brent crude oil price averaged \$111.3 per barrel, up \$31.8 per barrel on the average for 2010, despite continued instability in the global economy.

The Group's financial performance in 2011 reflects good operational performance throughout the year, with revenue up by 52.3% compared with 2010 pro-forma, resulting in a \$259.8 million increase in EBITDA from \$369.3 million on a pro-forma basis for 2010 to \$629.1 million in 2011, reflecting higher production volumes and higher realised sales prices.

Jonathan Swinney
Chief financial officer

The Group enters 2012 with \$378.9 million cash as a result of strong ongoing operating cash flows from its existing portfolio of assets. In addition, the Group secured a \$900.0 million bank facility on 6 March 2012, which is available for normal business, letters of credit, development activities and acquisition opportunities.

Income Statement

Production and revenue

Production levels, on a working interest basis, for the 12 months to 31 December 2011 averaged 23,698 Boepd, up 12.5% compared with 2010 pro-forma. The increase in production is due mainly to higher volumes on West Don as a result of having a full year's production from the W4 well and a full year's increased equity share following the acquisition of Stratic Energy Corporation (Stratic) in November 2010. There was also strong performance from the Broom field existing well stock and the field had a full year's benefit of the new flowline, which was installed in 2010. In addition, two new Thistle wells came on stream during the year, and the Conrie discovery well S7 and the Don Southwest wells S8Z and S9 came on stream in August 2011. Saleable production was approximately 3% lower than the export meter production volumes, primarily as a result of volume adjustments being applied by the Sullom Voe Terminal operator.



Operating costs

Cost of sales for the Group (pre-exceptionals and fair value adjustments) are as follows:

	Reported Year ended 31 December 2011 \$ million	Pro-forma* Year ended 31 December 2010 \$ million	Reported Year ended 31 December 2010 \$ million
Cost of sales	491.8	406.4*	384.5
	\$	\$	\$
Unit operating cost, adjusted for over/ under-lift and inventory movements (per Boe):			
– Production and transportation costs	31.9	30.4*	30.8
– Depletion of oil and gas properties	23.2	22.8*	22.2
	55.1	53.2*	53.0

The Group's blended average realised price per barrel of oil sold was \$107.6 for the 12 months to 31 December 2011, compared with \$81.3 per barrel for 2010 on a pro-forma basis, reflecting the increase in market prices for Brent crude and oil collar hedging costs of \$36.5 million incurred in 2011. The average sales price per barrel of oil sold excluding oil collar hedging costs was \$111.8.

The increase in the Group's average unit production and transportation cost of \$1.5 per Boe for the year ended 31 December 2011 compared with 2010 pro-forma, is primarily attributable to the cost of a major shutdown programme performed on Thistle and the Don Southwest S2Z well intervention costs, partially offset by increased production volume from the Dons and Thistle fields.

The Group's depletion expense per Boe for the year is broadly consistent with the previous year's pro-forma rate, with an increase of \$0.4 per Boe (2%).

The well abandonment expenses of \$8.2 million which were reported in 2010 have been credited in 2011 following a further review of options to recover these funds from the previous owners.

The Group's change in lifting position expense was \$14.6 million for the year ended 31 December 2011, compared with \$1.3 million in 2010 on a pro-

forma basis. The increase in expense of \$13.3 million has arisen primarily due to over-lifting of Dons volumes at 31 December 2011, compared to under-lifting at 31 December 2010.

Exploration and evaluation expenses

Exploration and evaluation expenses were \$37.0 million in the year ended 31 December 2011, compared with \$23.0 million reported in the previous year, excluding exceptional items. The expenses primarily relate to the cost of unsuccessful exploration wells at Don Southwest Area 26, Ivy, Moon and the non-operated Tudor Rose well.

General and administrative expenses

General and administrative expenses were \$16.0 million in the year ended 31 December 2011 compared with \$13.8 million reported in the previous year, excluding exceptional items. The expenses primarily relate to the Group's general management and business development expenses and the increase is mainly due to the increased levels of business development activity.

Taxation

The tax charge for the year of \$239.4 million excluding exceptional items, represents an effective tax rate of 64% compared with 51% in the previous year. The increase in the Group's effective tax rate in the year results from the increase in the UK supplementary corporation tax from 24 March 2011 (9% pro-rata increase compared with

2010) and petroleum revenue tax (PRT) on the Thistle field, offset by ring fence expenditure supplement receivable and prior year adjustments.

Exceptional items and depletion of fair value uplift

Exceptional costs totalling \$12.6 million before tax have been disclosed separately in the year ended 31 December 2011 relating to:

- non-cash gain on disposal of \$8.6 million resulting from the disposal of the Slovenian Petisovci asset, which was obtained on acquisition of Stratic, to Ascent Resources plc on 11 February 2011 in return for an equity stake;
- non-cash impairment of \$12.5 million in relation to the accounting valuation of the Group's shareholding in Ascent Resources plc; and
- non-cash well abandonment credit of \$8.2 million recognised following further review of options to recover these funds from the previous Thistle field owners.

In addition, a one-off deferred tax adjustment of \$68.1 million in respect of the increase in the supplementary charge on UK oil and gas production has also been reported as an exceptional item. The effective tax rate including the one-off charge for the increase in supplementary corporation tax rate was 83%. The UK government has also released draft legislation to restrict the tax relief available on decommissioning expenditure to 50% in 2012. This change is not yet substantively enacted but would be likely to give rise to a one-off exceptional additional tax charge in 2012 in the order of \$21.6 million.

Additional depletion costs of \$17.0 million (\$3.8 per Boe) have resulted from the fair value uplift of the Dons oil and gas assets on acquisition at IPO and are reported as a fair value adjustment.

Finance costs

Finance costs of \$18.6 million include \$7.8 million unwinding of discount on decommissioning provisions, \$4.8 million of costs associated with the Group's revolving credit facility and letter of credit utilisation during the year and a one-off premium of \$5.9 million following a decision to re-price the Group's 2011 oil collars in the second half of the year.

Finance income

Finance income of \$4.0 million includes \$1.8 million of bank interest receivable and a non-cash, unrealised accounting valuation of the mark to market gain of \$2.1 million on the Group's 2012 oil collars which are deemed ineffective for hedge accounting purposes.



FINANCIAL REVIEW CONTINUED

Cash outflow on capital expenditure is set out in the table below:

	2011 \$ million	Pro-forma* 2010 \$ million
Expenditure on producing oil and gas assets	170.9	171.4
Development expenditure	43.6	-
Exploration and evaluation expenditure	54.0	17.1
Other capital expenditure	9.4	7.8
	277.9	196.3

Earnings per share

The Group's reported basic earnings per share were 7.6 cents for the year ended 31 December 2011 compared with 4.0 cents in 2010. The increase of 3.6 cents is attributable to the combined impact of an increase in production volumes and realised oil price in the year ended 31 December 2011 compared with the previous year.

Cash flow and liquidity

The Group's reported cash generated from operations in 2011 increased by \$388.6 million to \$656.3 million (2010: \$267.7 million), generating an increase in the reported cash flow from operations per issued Ordinary share of 110% to 81.9 cents per share compared to the previous year (2010: 39.0 cents per share). This increase results mainly from the combination of higher average reported realised oil prices and additional production volumes in 2011 compared with 2010.

During the year ended 31 December 2011, \$10.9 million of income tax payments were made, mainly in settlement of Stratic pre-acquisition Italian tax liabilities. As a result of acquisitions and transactions made since the year end, it is expected that the underlying effective tax rate for 2012 will be around 62%, excluding one-off exceptional tax items, and that there will be no cash outflow for UK income tax before 2014.

Significant projects were undertaken during the year, including:

- expenditure on the Alma and Galia joint development;
- drilling and completing Don Southwest S8Z and S9 development wells;
- drilling and completing Conrie S7 development well;
- West Don W1 intervention well drilling programme;
- drilling and completing Thistle A56/13 and A57/58 development wells, and drilling of the Thistle DEV-P1 development well which was completed Q1 2012;

- Thistle power generation upgrade programme;
- Heather rig reactivation programme;
- Crathes exploration and appraisal well; and
- unsuccessful Don Southwest Area 26, Ivy, Moon and Tudor Rose exploration and appraisal wells.

Net cash at 31 December 2011 amounted to \$378.9 million compared to \$41.4 million in 2010.

On 6 March 2012, in anticipation of the maturity of the existing Revolving Credit Facility Agreement, the Group established a \$900.0 million Multi-Currency Revolving Credit Facility Agreement with Lloyds TSB Bank, Bank of America Merrill Lynch, Barclays, BNP Paribas, Crédit Agricole CIB, NIBC Bank and Royal Bank of Scotland. The facility comprises a committed amount of \$525.0 million for three years, extendable to four years at the option of the Company and a further year with consent of the lenders. A further \$375.0 million is available with the lenders' consent, primarily for investment opportunities. \$123.7 million of this facility is currently utilised for Letters of Credit.

Balance Sheet

The Group's total asset value has increased by \$487.7 million to \$1,948.7 million at 31 December 2011 (2010: \$1,461.0 million).

Property, plant and equipment

Property, plant and equipment has increased to \$1,273.6 million at 31 December 2011 from \$1,134.2 million at 31 December 2010. The increase of \$139.4 million is mainly due to oil and gas asset additions of \$291.7 million, additional decommissioning provisions arising on drilling new development wells of \$33.8 million and reclassification of the Don Southwest Area E (Conrie) well from intangible assets of \$11.2 million, partially offset by depletion and depreciation charges of \$219.0 million in the year.

The oil and gas asset capital additions during the year are set out in the table below:

	2011 \$ million
Dons hub	78.2
Thistle hub	93.9
Heather and Broom hub	32.5
Alma / Galia	82.4
Other new developments	4.7
	291.7

Goodwill

Provisional goodwill of \$100.1 million and \$1.8 million was recorded in 2010 in connection with the acquisition of Petrofac Energy Developments Limited (PEDL) and Stratic respectively. During 2011 the PEDL fair value allocation was reviewed and updated to reflect the finalisation of working capital adjustments, resulting in a \$2.8 million decrease in the recorded goodwill. Similarly, the Stratic fair value allocation was reviewed and updated to reflect the finalisation of tangible and intangible asset valuations and tax estimates; resulting in an increase in goodwill of \$8.7 million.

Investments

Following the disposal of the Slovenian Petisovci asset on 11 February 2011 and the purchase of a further 10,000,000 shares in the year, the Group holds an investment of 160,903,958 new ordinary shares in Ascent Resources plc which is valued at \$6.7 million based on the quoted bid price as at 31 December 2011.

Asset held for sale

During 2011, \$1.3 million of costs associated with the Group's Dutch licences were reclassified to asset held for sale and the 2010 balance of \$9.8 million was released on the sale of the Petisovci asset.

Trade and other receivables

Trade and other receivables have decreased by \$6.0 million to \$126.6 million at 31 December 2011 compared with \$132.6 million in 2010. The decrease is primarily due to a reduction in joint venture receivables in relation to the Don fields.

Cash and bank

The Group has a strong liquidity position at 31 December 2011, with \$378.9 million of cash and cash equivalents despite undertaking a significant capital expenditure programme, with \$277.9 million spend in the year, and \$13.1 million incurred on the purchase of Company shares by the Employee Benefit Trust.



Key Performance Indicators

	2011	2010
Lost Time Incident Frequency (LTIF)**	0.44	0.96**
2P reserves (MMboe)	115.21	88.51
Business performance data:		
Production (Boepd)	23,698	21,074*
Revenue (\$ million)	936.0	614.4*
Realised oil price per barrel (\$)	107.6	81.3*
Opex per barrel (production and transportation costs) (\$)	31.9	30.4*
Gross profit (\$ million)	444.2	208.0*
Capex (\$ million)	360.6	196.3*
Reported data:		
Cash flow generated from operations (\$ million)	656.3	267.7
Net cash (\$ million)	378.9	41.4
Profit before tax (\$ million)	362.8	55.8
Cash flow generated from operations per share (cents)	81.9	39.0
Basic earnings per share (cents)	7.6	4.0

* The pro-forma data in the above table presents the trading results for the combination of the legal entities which include all of the producing assets from the start of the 2010 calendar year, as though the combination was part of the Group for the full 12 months ended 31 December 2010.

** During the year, the Group changed the metric for recording lost time incidents to Lost Time Incident Frequency (LTIF) to align with the industry standard. The 2010 comparative figure has therefore been restated from Lost Time Accidents (days) of 0.21 days to a LTIF of 0.96.

Provisions

The Group's decommissioning provision increased by \$41.1 million to \$181.2 million at 31 December 2011 (2010: \$140.1 million). The increase is due to the combined impact of additions of \$33.8 million during the year resulting from the Group's drilling programme, \$16.9 million resulting from a change in decommissioning estimates and unwinding of the discount of \$7.8 million, offset by utilisation of the provision of \$17.4 million on well abandonment and various small facility decommissioning worksopes.

Deferred tax liability

The Group's deferred tax liability (net of deferred tax asset) has increased by \$295.9 million to \$577.4 million at 31 December 2011 from \$281.5 million in 2010. The increase is due mainly to a one-off deferred tax adjustment of \$68.1 million in respect of the increase in the supplementary charge on UK oil and gas production which has been reported as an exceptional item, the significant capital expenditure programme undertaken by the Group during the year which provides the Group with 100% first year capital allowance claims, and partial utilisation of taxation losses brought forward. Total losses carried forward at the year end amount to approximately \$185 million of which \$34 million relates to losses carried forward relating to the Don assets and \$123 million in respect of the Stratic acquisition.

Trade and other payables

Trade and other payables have increased to \$234.3 million at 31 December 2011 from \$135.7 million at 31 December 2010. The increase of \$98.6 million is primarily due to an increase in accruals of \$71.7 million and an increase in trade creditors of \$14.5 million resulting from the Group's drilling and capital project programmes which were ongoing at the end of 2011 and an increase in other payables of \$12.5 million which was mainly due to the increase in the year end over-lift position compared with 2010.

Financial risk management

The Group is exposed to the impact of changes in Brent crude oil prices on its revenue and profits. During 2010 the Group entered into four zero premium oil price collars covering approximately 4 million barrels of 2011 production with an average floor price of \$75 per barrel and an average cap of \$100 per barrel. In August 2011, two of the oil price collars were re-priced to give a revised average cap of \$108 per barrel.

In November 2011, a further five put and call options covering approximately 3 million barrels of oil production in 2012 were entered into partially to hedge the exposure to fluctuations in the Brent oil price. The 2012 oil price hedge contracts consist of put spreads at \$95 per barrel and \$70 per barrel and calls at an average of \$122 per barrel, all executed on a costless basis.

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 second half of 2011, the Group entered into a number of forward currency contracts to hedge a total of £123.0 million (at an average rate of \$1.58 to £1) and €57.0 million (at an average rate of \$1.34 to €1) of forecast 2012 capital project spend.

Cash balances can be invested in short term bank deposits and AAA rated liquidity funds, subject to Board approved limits and with a view to minimising counterparty credit risks.



CORPORATE SOCIAL RESPONSIBILITY REVIEW



COLLABORATIVE

Fellowship, mutual trust, knowledge sharing and teamwork



AGILE

Nimble behaviour from a responsive and flexible team



FOCUS

Relentlessly focused on results, accountable and entrusted



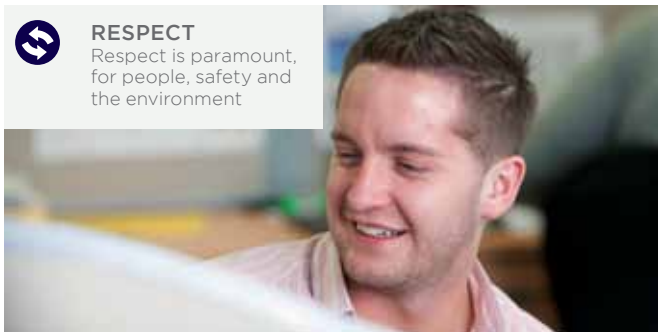
CREATIVE

Creativity and innovation to embrace new ideas and deliver solutions



RESPECT

Respect is paramount, for people, safety and the environment



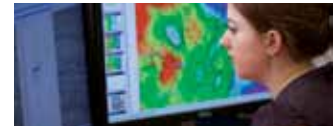
PASSION

A passionate, enthusiastic and committed organisation



EMPOWERMENT

An empowered workforce is fundamental to success



Safeguarding our people and our environment

Our focus on the safety of our staff and our environmental impact remains critical to the way we operate as a business. This is embedded in our culture, in the way we manage the Company and how our employees organise their work every day. Our standards are high. We expect to exceed them and constantly strive to improve them.

Personal Safety performance during 2011 was good with just two Lost Time Incidents (LTI) recorded, both hand injuries, and this put us once again in the top quartile of industry performance with a Lost Time Injury Frequency Rate (LTIFR) of 0.44 compared with the latest industry average of 1.82. Key achievements include a four year unbroken record for the Thistle Drilling Rig without any LTIs, the Northern Producer completed a second LTI free year, and the John Shaw Drilling Rig achieved one year LTI free; records that we are all proud of.

Safety leadership is critical to our success. Each member of the leadership team makes frequent offshore safety visits, auditing specific activities and generally raising the safety profile.

We continue to invest in this area, we strengthened the Health, Safety, Environment and Quality (HSEQ) team with a new manager, John Atkinson, who was formerly asset manager of Heather and Broom, so he brings considerable operational experience to the role.

Our environmental performance remains in line with the industry average. The installation of hydrocyclones has significantly improved the oil in water (OIW) performance on Heather bringing our OIW emissions back in line with our target. During the year, a number of minor OIW incidents occurred, relating to the transfer of fluids from supply vessels. A specific project to tackle this issue has recommended modifications to the bunkering processes. CO₂ emissions were marginally ahead of last year as a result of additional flaring on Thistle, but gas flaring overall remained below permitted limits.

We are on track to achieve ISO 14000 in 2012 as our environmental management system continues to develop. Our Alma Development Environmental Submission was a clear demonstration of our progress. This comprehensive report includes a rigorous and detailed risk assessment with mitigating strategies, setting the standard for all of our installations going forward.

Our efforts to promote a healthy working environment across the Company achieved external recognition this year when we were awarded the Healthy Working Lives Bronze award, part of a Scottish Government initiative, and we are now working towards the Silver award.

A high performance team

Since flotation, we have focused on building the high performance organisation essential to delivering EnQuest's ambitious growth plans. Scaling up the business has been critical. We have more than doubled in size since IPO, in 2011 we recruited around 200 people and we expanded into a second office in Aberdeen. We ended the year with a core staff of just under 300 high calibre individuals and a total workforce of around 1,300 including our offshore contractors.

Our objective has been to attract the best in the industry, and we have succeeded in attracting not only people who are highly skilled in their field, but also people for whom EnQuest's values resonate strongly and positively. During the year we enhanced our remuneration framework to ensure that we had the right salary and incentives package to compete successfully for highly sought after skills in the subsurface, well drilling and project engineering disciplines. In addition to these enhanced incentives, our strong production growth and active business development programme, in particular the new Alma and Galia hub, has helped to raise our profile and build our reputation as an innovative, dynamic employer.

Whilst recruitment has been a key focus over the last 12 months, retention is clearly of equal importance. To ensure that this remains high, we have begun to develop a series of technical ladders to facilitate technical career progression. The first of these is for subsurface disciplines, such as geophysicists, geologists, and reservoir engineers. Career ladders for other disciplines will be rolled out during 2012.

We have now built what we believe to be a centre of excellence in Aberdeen, with one of the best integrated development teams in the industry. The EnQuest development machine is well and truly in place, underpinned by in-depth expertise and firmly focused on execution.

We believe that open, frequent communication is key to employee engagement and nurturing our culture. Short weekly bulletins keep staff up-to-date with progress on production, health and safety, and our share price,

aligning the workforce behind our key performance indicators. These are supplemented by 'Town Hall' events where employees are briefed directly by EnQuest executive directors and get the opportunity to ask questions on a range of topics. A new feature this year has been the introduction of a series of high quality, engaging videos that give staff a real insight into projects going on offshore.

Operating to the highest ethical standards has been part our culture from the day we started. We put a detailed Code of Conduct in place in 2010 and this year we updated this significantly, augmenting the section on business ethics to reflect the requirements of the UK Bribery Act. This reinforces our commitment to ensure our employees act with complete integrity at all times, including how we interact with our partners and suppliers.

Working with our local community

The highlight of the year was probably our participation in the Aberdeen Corporate Decathlon. This was a hugely successful event for us on several levels. Raising a substantial sum for a local cancer charity was a fantastic result, but of equal importance was the team building that supported this. It was particularly pleasing to be nominated as the winning company of the Charity Challenge.

We have continued to develop our relationship with Tullos primary school in Aberdeen, providing funds for books, school trips and contributing towards an Active Maths Scheme that is part of the 'Curriculum for Excellence' programme. Contributions were also made towards the purchase of children's mountain bikes, in conjunction with Aberdeen City Council's Go Mountain Biking initiative.

We also focused on environmental and youth projects including supporting two local swimming clubs, football clubs and the Solstice Garden Centre that helps people who have experienced mental health problems return to the workplace, by offering work experience and horticultural training. This was complemented by corporate donations to a number of local and national charities.

We see positive benefits for our staff from these activities and intend to build on this in 2012 by forming a new committee to decide the best way to allocate the funds we raise.



BOARD OF DIRECTORS



Dr James Buckee. Chairman.

James Buckee holds a BSc Honours degree in Physics and a PhD in Astrophysics. Between 1971 and 1987, James held various petroleum engineering positions with Shell International, Burma Oil and 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). James retired from Talisman Energy Inc in 2007.

James was appointed as non-executive chairman of EnQuest PLC in 2010, and chairs the nomination committee. James also serves as a non-executive director on the board of Cairn Energy PLC.

Amjad Bseisu. Chief executive.

Amjad holds a BSc Honours degree in Mechanical Engineering and an MSc and D.ENG degree in Aeronautical Engineering. From 1984 to 1998, Amjad worked for the Atlantic Richfield Company (ARCO), eventually becoming president of ARCO Petroleum Ventures and ARCO Crude Trading Inc. In 1998 Amjad founded the operations and investment business for Petrofac Limited and was the chief

executive officer of Petrofac Energy Developments International Limited. In 2010 Amjad formed EnQuest PLC and was appointed 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.

Nigel Hares. Chief operating officer.

From 1972 to 1994, Nigel worked for BP in the UK, Abu Dhabi, Norway and Alaska. At BP, Nigel's roles included those of drilling, petroleum, reservoir, well-site, 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. Nigel then moved to Talisman Energy Inc. as executive vice-president, international operations, heading 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 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. 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 and an MA in Economics. Between 1974 and 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 nomination 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 and in 1980 qualified as a chartered accountant with Ernst & Young LLP, Edinburgh and is a member of the Institute of Chartered Accountants of Scotland. In 1988 Jock became a partner at Ernst & Young LLP, London, and retired in 2009.

In 2010 Jock was appointed to the Board of EnQuest PLC and sits on the nomination and remuneration committees and chairs the audit committee. Jock is a non-executive director of Dixons Retail plc, Hill & Smith Holdings plc, A&J Mucklow Group plc, and Oxford Instruments plc and sits on the council of the Institute of Chartered Accountants of Scotland.

Alexandre Schneider. Non-executive director.

Alexandre Schneider holds a degree in Geology and a Masters degree in Geophysics. Between 1987 and 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.

Clare Spottiswoode. Non-executive director.

Clare Spottiswoode holds an M.Phil degree in Economics and an MA in Mathematics and Economics. A mathematician and an economist by training, Clare began her career in the Treasury before starting her own software company. Between 1993 and 1998, she was director general of Ofgas, the UK gas regulator. Clare was also a member of the UK Treasury's Independent Commission on Banking until 2012.

Currently, Clare is non-executive chairman of both Gas Strategies and Energetix, and is also a non-executive director of G4S plc, Ilika plc and EnergySolutions Inc. From 2002 to

2007 she was also deputy chairman of British Energy PLC. Clare retired from Tullow Oil plc in 2011 where she had been a non-executive director since 2002 and was appointed to the Board of EnQuest PLC in July 2011. Clare sits on the audit, nomination and remuneration committees.



SENIOR MANAGEMENT

David Heslop. General manager UKCS.

David Heslop graduated with a BSc in Aeronautical Engineering and subsequently gained an MSc in Petroleum Engineering. David was initially a wireline engineer at Schlumberger, working in the Middle East, before moving to Mobil Oil where amongst other roles, he was the development manager responsible for exploration, development and reservoir management activities for over 50 fields in Continental Europe. Prior to joining EnQuest in June 2011, David was at Talisman Energy where his roles included: vice president, wells; vice president of the Greater Fulmar area; and subsurface manager.

Tim Bradbury. Deputy general manager UKCS.

Tim Bradbury has an Honours degree in Chemical Engineering and began his career as a process engineer at Grangemouth Refinery before moving onto the role of facilities and offshore engineer on the BP Forties field. Tim went on to manage the technical and commercial issues of Southern North Sea gas fields, then the commissioning and early operation of the first hydrocarbon development in Papua New Guinea. Tim then moved to Abu Dhabi as safety manager, and then to Alaska as operations manager of Prudhoe Bay. In 1999 Tim returned to Aberdeen to manage the Forties field and then joined the BP petrochemicals business, first as manufacturing manager in South Carolina and then as logistics director for BP Chemicals in Europe. Following that Tim joined Ineos as supply chain director and subsequently became their manufacturing director, before joining EnQuest in early 2011.

Andrew Thomson. General manager technical.

Andrew Thomson has a Masters degree in Petroleum Engineering and a wealth of experience working as a petroleum, reservoir and operations engineer. Andrew first worked for Schlumberger and spent seven years working for Britoil and BP. In 1990 Andrew co-founded RML where he was managing director, then Senergy in 2005, where he held roles as CFO and then CEO of Senergy Investments. Andrew is a 'Competent Person' in reserves reporting and is a chartered engineer. Andrew joined EnQuest in October 2010, having supported the formation of EnQuest as a consultant.





Craig Matthew. New developments manager.

Craig Matthew graduated with an Honours degree in Civil Engineering and now has 20 years of field development, project management, engineering and construction experience. Initially Craig spent 10 years working for Stena in a variety of subsea roles whilst also completing a Post Graduate Certificate in Project Management. Craig then joined Kerr-McGee as subsea manager, eventually becoming project manager for the Dumbarton field development. Craig became part of EnQuest via Petrofac Energy Developments, after joining them as project manager for the Don area development.

Graham Cooper. Head of business development.

Graham Cooper graduated from Cambridge University with a Masters degree in Natural Sciences. Graham worked as a wireline logging engineer before joining Conoco 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.

Faysal Hamza. Head of strategy & corporate development.

Faysal Hamza has an MBA from Georgetown University in Washington and over 22 years of experience in oil and gas, finance, business development and private equity. Faysal joined EnQuest in August 2011 and prior to that was managing director, private equity at Swicorp, a diversified financial services firm operating through an extensive network of offices in the Middle East and North Africa. Faysal has also held roles as senior executive at Arab Petroleum Investments Corporation (APICORP); group business development manager with the Alturki Group, a diversified industrial conglomerate in Saudi Arabia; and management positions at Arco International Oil & Gas Company (ARCO) in the US, Saudi International Bank in London, and the Saudi Arabian Oil Company (Saudi Aramco) in Saudi Arabia.



DIRECTORS' REPORT

The directors of the Company submit their Annual Report together with the Group and Company audited financial statements for the year ended 31 December 2011.

Principal activities

The principal activities of the Group are oil and gas development and production with its main focus on the UKCS. The Group's producing assets include interests in seven producing fields in the UKCS: Heather, Broom, Thistle, Deveron, West Don, Don Southwest and Conrie. The Group operates through a number of principal subsidiaries which are set out in [note 29](#) of the financial statements on [page 86](#).

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 6 and 7](#);
- Chief Executive's Report on [pages 8 to 13](#);
- Operating Review on [pages 18 to 21](#);
- Financial Review on [pages 30 to 33](#);
- Key Performance Indicators on [page 33](#); and
- Corporate Social Responsibility Review on [pages 34 and 35](#).

The Company's 'forward-looking statements' form part of the Business Review on [pages 6 to 35](#).

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 43 to 46](#).

Results and dividends

The Group's financial statements for the year ended 31 December 2011 are set out on [pages 52 to 94](#).

The Company has not declared or paid any dividends since incorporation on 29 January 2010 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

The directors biographical details are set out on [pages 36 and 37](#). All of the current directors served throughout the year, with the exception of Robin Pinchbeck who served as a director until 25 May 2011 and Clare Spottiswoode, who was appointed with effect from 1 July 2011.

All directors will offer themselves for re-election at the Annual General Meeting (AGM) on 30 May 2012, in accordance with the UK Corporate Governance Code provision for annual re-election of all FTSE 350 companies' directors, save for Alexandre Schneider who is not offering himself for re-election, as he will retire at the conclusion of the meeting.

Directors' interests

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

Name	At 31 December 2010 or appointment date	At 31 December 2011	26 March 2012
Amjad Bseisu ¹	31,175,613	70,142,289	70,142,289
Dr James Buckee	281,617	691,370	691,370
Nigel Hares	200,000	3,455,000	3,455,000
Helmut Langanger	0	0	0
Jock Lennox	20,000	20,000	20,000
Robin Pinchbeck ²	1,001,617	N/A	N/A
Alexandre Schneider	400,000	400,000	400,000
Clare Spottiswoode	0	0	0
Jonathan Swinney	62,033	62,033	62,033

Notes:

- 1 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.
- 2 Robin Pinchbeck served as a director until 25 May 2011.

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's share capital during the year consisted of Ordinary shares of £0.05 each (Ordinary shares). Each Ordinary share carries one vote.

There were 802,660,757 Ordinary shares in issue at the end of the year (2010: 799,462,905). The Company issued 3,197,852 Ordinary shares on 14 April 2011, and allotted these to the Group Employee Benefit Trust to satisfy future employee share awards. All of the Company's issued Ordinary shares have been fully paid up. Further details on the Ordinary shares issued during the financial year can be found in [note 19](#) of the financial statements on [page 77](#).

Further information regarding the rights attaching to the Company's Ordinary shares can be found in [note 19](#) to the financial statements on [page 77](#). No person has any special rights with respect to control of the Company.

The Company did not purchase any of its own shares during 2011 or up to and including 26 March 2012, being the date of this report.

Company share schemes

During September 2011, the trustees of the Group Employee Benefit Trust (the 'Trust') purchased 8,000,000 Ordinary shares to satisfy future employee share awards. At year end, the Trust held 2.27% of the issued share capital of the Company (2010: 0.9%) for the benefit of employees and their dependents. The voting rights in relation to these shares are exercised by the trustees.



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 dates shown below.

Name	Number of Ordinary shares held at 31 December 2011	% of issued share capital held at 31 December 2011	Number of Ordinary shares held at 26 March 2012	% of issued share capital held at 26 March 2012
Amjad Bseisu and family	70,142,289	8.74%	70,142,289	8.74%
Baillie Gifford & Co	34,974,726	4.36%	43,164,130	5.38%
Ayman Asfari and family	44,282,114	5.52%	32,583,982	4.06%
Investec Asset Management	22,741,561	2.83%	24,184,015	3.01%

Acquisitions

On 31 January 2012, the Company completed the acquisition of two companies from Canamens Limited, whose assets include the 20% interest in the Kraken oil discovery, for an initial consideration of \$45 million and a contingent consideration of \$45 million dependent upon approval of the Kraken Field Development Plan by the Department of Energy and Climate Change.

In March 2012, the Company announced that it had agreed to acquire an additional 18.5% interest in West Don from JX Nippon Exploration and Production (UK) Limited for a cash consideration of \$34 million. This acquisition, which includes \$2 million of tax allowances, takes EnQuest's holding in West Don to 63.5%.

Annual General Meeting

The Company's AGM will be held at Sofitel London St James Hotel, 6 Waterloo Place, London SW1Y 4AN on 30 May 2012. 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 95](#).

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 34 days (2010: 38 days).

Political and charitable donations

The Company made charitable, social and community-related donations totalling US\$62,674 during the year (2010: US\$57,845). No political donations were made during the year (2010: US\$13,000).

Change of control agreements

The Company is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid, except for the Revolving Credit Facility Agreement, which includes provisions that, upon a change of control, permit each lender not to provide certain funding under that facility and to cancel its exposure to credit which may already have been advanced to the Company. See [page 49](#) of the Remuneration Report for details of compensation which the directors are entitled to in the event of a change of control.

Important events subsequent to the year end

Events since the balance sheet date are summarised in [note 28](#) to the financial statements on [page 85](#).

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 58 to 86](#) 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 6 to 35](#). 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 27](#) 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 115.2 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 26 March 2012.

Paul Waters
Company secretary



EnQuest's commitment to corporate governance

EnQuest is committed to achieving compliance with the principles and provisions set out in the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (Governance Code) which applies to listed companies with financial years beginning on or after 29 June 2010, and ensuring that high standards of corporate governance are maintained.

Set out below is a statement of how the Company applied the principles of the Governance Code for the year ended 31 December 2011. The Board considers that the Company complies and has been in compliance during the preceding 12 months, with all provisions of the Governance Code, other than as detailed below.

The EnQuest Board

The Board currently comprises the chairman, the chief executive, two executive directors and four non-executive directors. The directors' biographies are set out on [pages 36 and 37](#). Robin Pinchbeck served as a non-executive director during part of the year, and retired at the AGM held on 25 May 2011. The Board appointed a new independent non-executive director, Clare Spottiswoode, with effect from 1 July 2011.

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 the opinion of the Board, Jock Lennox, Helmut Langanger and Clare Spottiswoode are fully independent for the purposes of the Governance Code. However, the remaining non-executive director, Alexandre Schneider, due to his association with Lundin Petroleum AB (being the entity that the Company partly demerged out of in 2010), is not deemed to be independent for the purposes of the Governance Code.

Notwithstanding the fact that Alexandre Schneider is not deemed independent for the purpose of the Governance Code, the other directors, having given full consideration to this issue, agreed that his knowledge of the Company's business and the experience he brings to his role, outweighed the resulting non-compliance with the Governance 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 Governance Code.

In order to achieve full compliance with the Governance Code, it was stated in the Company's listing Prospectus dated 18 March 2010 and re-affirmed in last year's Corporate Governance Report, that Alexandre Schneider will be retiring as a non-executive director at the AGM on 30 May 2012 and the Board plans to appoint a new independent non-executive director as a replacement for Alexandre Schneider.

The Board has a formal schedule of matters specifically reserved to it for decision, which was approved by the Board in 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 and senior management. Operational management of the Group on a day-to-day basis is managed by the operational committee, which comprises members of the executive committee, 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, in furtherance of the duties, to take independent professional advice if necessary, at the Company's expense, up to a pre-determined limit.

Board diversity

The Board is aware of the provisions of the Governance Code and has due regard for the benefits of diversity, including gender, on the Board.

Conflicts of interest

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.

Re-election of directors

In accordance with the Governance Code, all of the directors will be subject to annual re-election by shareholders at the AGM on 30 May 2012, with the exception of Alexandre Schneider.

Senior independent non-executive director

Helmut Langanger continues to be the senior independent non-executive director. The main responsibilities for the senior independent non-executive director are as follows:

- 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;
- to provide a sounding board for the chairman and to serve as an intermediary with other directors when necessary; and
- to meet with the other non-executive directors without the chairman present at least annually in order to evaluate the performance of the chairman.

Board meetings

During 2011, seven scheduled meetings of the Board were held, six 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 in the table on [page 44](#).

During the year, a number of other meetings took place to deal with specific matters that required consideration 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 drawn up by the company secretary in consultation with the chairman and with 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, to discuss matters in respect of the business.

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 2011:

	Board meetings	Audit committee	Remuneration committee	Nomination committee
Meetings held in 2011	7	3	4	1
Executive Directors				
Amjad Bseisu	7	n/a	n/a	1
Nigel Hares	6	n/a	n/a	n/a
Jonathan Swinney	7	n/a	n/a	n/a
Non-Executive Directors				
Dr James Buckee ¹	7	1	2	1
Helmut Langanger	7	3	4	1
Jock Lennox	7	3	4	1
Robin Pinchbeck ²	3	n/a	n/a	n/a
Alexandre Schneider	6	n/a	n/a	n/a
Clare Spottiswoode ³	3	2	2	0

Notes:

n/a not applicable where a director is not a member of the committee.

- With effect from 1 July 2011, Dr James Buckee ceased to be a member of the audit and remuneration committees, but, on occasion, continued to attend meetings by invitation. These details have not been included in the table.
- Robin Pinchbeck retired as a director at the AGM held on 25 May 2011. The number of meetings attended is stated up to and including that date.
- With effect from 1 July 2011, Clare Spottiswoode was appointed as a non-executive director and member of the audit, nomination and remuneration committees. The number of meetings attended is stated with effect from that date, which represents 100% attendance of eligible meetings.

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 Governance 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 currently comprises three non-executive directors, all of whom are considered by the Board to be independent and have recent and relevant financial experience.

The members of the audit committee during the year were as follows:

- Jock Lennox (Chairman)
- Helmut Langanger
- Dr James Buckee (ceased to be a member of the committee on 1 July 2011)
- Clare Spottiswoode (joined the committee on 1 July 2011)

The audit committee met three times in 2011. 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 the meetings when invited to do so by the committee. In addition, all three meetings were attended by the external auditors, who receive copies of all the audit committee papers. Deloitte, in their role as internal auditors, attend as appropriate. The chairman of the committee regularly meets with the external audit partner and the internal audit partner to discuss matters relevant to the Company.

The main responsibilities of the audit 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;
- monitoring and reviewing the process of audit of the Group's Proven and Probable Reserves by a recognised Competent Person;
- monitoring and reviewing the Company's internal control procedures and risk management systems;
- monitoring and reviewing the effectiveness of the external and internal audit activities;
- making recommendations to the Board 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.

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.

During the year under review, the Group's half year financial report and full year Annual Report were reviewed by the audit committee before recommending publication to the Board. In carrying out this review the committee discussed with management how they had applied the critical accounting estimates and judgements, including key assumptions regarding decommissioning, oil price, goodwill impairment testing and taxation. The committee also considered the reports from the external auditors. The committee also reviewed the Group's approach to estimating and auditing of the oil and gas reserves. The committee held private meetings with the external auditors without management present. These meetings provided the opportunity for direct feedback and discussion between the committee and the external auditors. The committee also considered the performance of the external auditor and internal audit and the effectiveness of its own performance. Various improvements were identified and adopted.



In its role of monitoring and approving the level and type of non-audit services to be delivered by the external auditor, the committee had regard to consideration whether through its knowledge of specific transactions, the external auditor was best placed to deliver the services to the Group.

Assessment of the continuing independence of the external auditor was also undertaken. As a result of these considerations a number of projects were approved to be performed by the external auditors during the year and a number were not. It is the policy that the Group has relationships with a number of service providers that can provide similar services to the external auditors.

During the year the internal audit approach was reviewed and found to be effective. Accordingly Deloitte developed an audit plan for 2011 based on their review of the significant risks identified by the Group, discussion with senior management and with the audit committee. The plan centred on the risks around the establishment of the Group as an independent organisation. The approach to internal audit will be considered again in 2012 and its link with other aspects of risk management assurance that are conducted in the Group.

In 2011 the Group updated its Code of Conduct policy which all employees and contractors are required to comply with and the new Code was rolled out across the organisation. The Code includes procedures for whistle-blowing whereby concerns can be raised in confidence about possible financial wrong doing or other misconduct. The committee is satisfied that arrangements are in place for concerns to be raised, how these are investigated, and that the appropriate follow-up action is taken.

Remuneration committee

The remuneration committee currently comprises three non-executive directors, all of whom are considered by the Board to be independent.

The members of the remuneration committee during the year were as follows:

- Helmut Langanger (Chairman)
- Jock Lennox
- Dr James Buckee (ceased to be a member of the committee on 1 July 2011)
- Clare Spottiswoode (joined the committee on 1 July 2011)

The remuneration committee met four times in 2011. The chief executive, at the request of the committee, attended the meetings. The chairman also attended meetings after he ceased to be a member of the committee, as an observer, at the request of the committee. The chief executive did not participate in any discussions relating to his own remuneration.

The main responsibilities of the remuneration 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 Governance Code in this respect.

Further information on the remuneration committee can be found in the Remuneration Report on [pages 47 to 51](#).

Nomination committee

The nomination committee currently comprises the chairman, three independent non-executive directors and, to ensure input from the executive, the chief executive.

The members of the nomination committee during the year were as follows:

- Dr James Buckee (chairman)
- Helmut Langanger
- Jock Lennox
- Clare Spottiswoode (joined the committee on 1 July 2011)
- Amjad Bseisu

The main responsibilities of the nomination 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 met once in 2011, in order to deal with the appointment of Clare Spottiswoode as a non-executive director of the Company. The following procedure was followed in respect of this appointment:

The committee evaluated the balance of skills, knowledge and experience of the Board with a view to identifying any gaps in the skill set of the Board and also where gaps would exist following Robin Pinchbeck standing down as a director at the 2011 AGM. The committee then decided to conduct a search for a new non-executive director with a commercial and/or financial background and with relevant oil and gas sector experience. The committee instructed Heidrick & Struggles to conduct the search, from which a list of candidates was provided to the chairman and chief executive. Following this, a shortlist was prepared and candidates were first interviewed by the chairman and chief executive, and the preferred candidates were interviewed again by other members of the committee and the executive directors.

This process identified Clare Spottiswoode as the preferred candidate based on her business and commercial skills and her experience in the oil and gas sector (her biographical details are set out on [page 37](#)). The nomination committee then recommended to the Board that Clare Spottiswoode be appointed a non-executive director of the Company and her proposed appointment was unanimously approved by the Board. Consequently, Clare was appointed with effect from 1 July 2011, and at the same time was appointed a member of the Company's audit, nomination and remuneration committees.

The Board and nomination committee are satisfied that the individuals currently fulfilling key senior management positions in the Group have the requisite depth and breadth of skills, knowledge and experience to ensure that orderly succession to the Board and executive committee can take place.

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 in order 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.

Board performance evaluation

An evaluation of the performance of the Board, its committees, the individual directors and the chairman, was conducted in the first quarter of 2012 by the chairman and the results of the review were then fed back to the Board as a whole. The evaluation focused on the balance of skills, experience, independence and knowledge of the members of the Board, including its diversity, how the Board functions and other factors relevant to its effectiveness. The biographies of each director, together with the skills and experience that each director brings to their role, including all other directorship appointments held by such individuals, is included on [pages 36 to 37](#). The Company intends to conduct an externally facilitated Board evaluation process at the end of 2012, at which time the Board will have been in operation for three financial years, since its formation in 2010.

Following the evaluation, the directors concluded that the Board and its committees 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.

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 PLC 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 the requirement of two signatures to make a transfer from the principal bank accounts;
- reconciliation of all control accounts;
- prior approval by the Board for major investments; and
- segregation of duties between relevant functions and departments.

The Board has ensured that the process for identifying, evaluating and managing the significant risks faced by the Group accords with the Turnbull Guidance, and that the process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

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.

The financial reporting procedures were reviewed during the year, following which 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 16 and 17](#).

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 payable to Ernst & Young LLP during 2011 amounted to \$263,000 (2010: \$369,000) for audit related services and \$991,000 (2010: \$794,000) for non-audit services including tax advice on asset and corporate acquisitions.

Communication with shareholders

Communications with shareholders are given high priority by the Board. In 2011 EnQuest sent its maiden Annual Report and Accounts to all registered shareholders. In order to ensure that the Board developed a strong dialogue with shareholders, during 2011 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 2012 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 with the governance statement

Throughout 2011, the Company complied with the provisions of the Governance Code, except in the following areas:

- up to 1 July 2011, less than half the Board, excluding the chairman, comprised independent non-executive directors. Following the appointment of Clare Spottiswoode with effect from 1 July 2011, as an independent non-executive director, there are an equal number of executive and independent non-executive directors; and
- the chairman was a member of the audit committee up to 1 July 2011, when he ceased to be a member, following the appointment on the same date of Clare Spottiswoode, as an independent non-executive director.

On behalf of the Board

Dr James Buckee
Chairman of the Board
26 March 2012



Introduction

The Directors Remuneration Report has been prepared in accordance with the requirements of the Companies Act 2006 and Schedule 8 of the 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 30 May 2012.

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 in March 2010, a copy of which is available on the Company's website. 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 up until the date of this Report were Helmut Langanger (chairman), Jock Lennox and Clare Spottiswoode. Clare Spottiswoode was appointed onto the remuneration committee in July 2011 and at the same time Dr James Buckee stood down from the remuneration committee. All members of the remuneration committee are considered by the Board to be independent as explained in the Corporate Governance Report on [pages 43 to 46](#). The chairman, chief executive, HR director and the company secretary attend meetings of the remuneration committee by invitation but are not present for any discussions that directly relate to their own remuneration.

Remuneration policy – overview

EnQuest's remuneration policy 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.

During 2011, EnQuest undertook a study of remuneration within the oil and gas sector and FTSE 250 companies. New Bridge Street (a brand of Aon Hewitt Limited) provided advice and information on EnQuest's remuneration policy and practices for employees during the year. Neither New Bridge Street, nor any other part of Aon Hewitt or its ultimate parent Aon Corporation, provided other services to the Company during the year. A remuneration framework was devised and introduced that focused on the key managerial, technical, commercial and professional staff populations. The framework was underpinned by the following key principles:

- the remuneration framework should reflect the growth focus of EnQuest and provide emphasis on long-term sustainable growth;
- 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.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. More generally, the remuneration committee will ensure that the overall remuneration policy does not encourage inappropriate operational risk-taking.

Within the framework, executive directors, senior management and key technical, commercial and professional staff are incentivised by having the various components of reward benchmarked as follows:

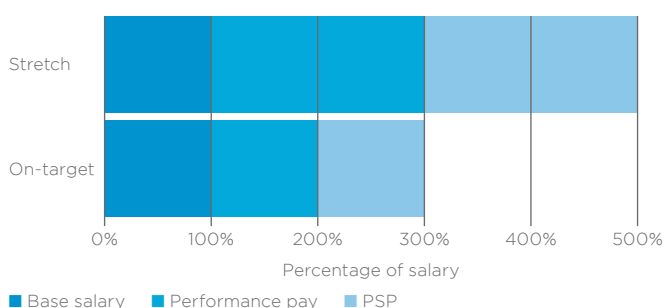
- basic salaries would typically be median or below benchmarked salaries against UK oil and gas companies of a similar size to EnQuest; however to be able to attract key technical staff in a competitive market, upper quartile base salaries may be offered; and
- the variable elements of remuneration are above median when expressed as a percentage of the at or below median salaries and are structured so that individuals can achieve total remuneration that is upper quartile subject to achievement of challenging performance by both the Company and the individual.

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 chart below illustrates the relationship between base salary and the variable elements of remuneration for executive directors at different levels of performance. For on-target performance, a bonus award of 100% of salary and a Performance Share Plan (PSP) award worth 50% of the normal maximum Long Term Incentive award, i.e. 100% of salary, has been assumed. For stretch performance, a bonus award of 200% of salary is assumed and a PSP award in line with the normal maximum, i.e. 200% of salary, has been assumed.

Relationship between salary and variable elements of pay for executive directors



REMUNERATION REPORT CONTINUED

The amount of base salary, annual performance pay and long-term incentive awards granted to the executive directors during 2011 are set out in the remuneration table on [page 50](#).

Reward component

Base salary and benefits

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 the current competitive market conditions, pay and conditions among the wider workforce, 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 external benchmarking agencies, as required.

The chief executive (with the assistance of the chairman of the remuneration committee and the HR director) annually evaluates the performance of each of the executive directors and their 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.

Prior to the 2012 financial year, the salaries of the executive directors had not been reviewed since before the IPO in April 2010. The committee carried out a review of salaries, and for 2012 the executive directors salaries were increased to the lower quartile of the FTSE 250 benchmark companies: £395,000 for Amjad Bseisu (5.3% increase), £290,000 for Nigel Hares (1.8%) and £255,000 for Jonathan Swinney (15.9%). The average increase for the Company's other employees was 3.7%.

The Company provides a defined contribution pension plan 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). These remained the same as prior years.

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 in January 2011 and then reviewed by the remuneration committee in January 2012. The Company's performance objectives are based on annually defined Key Performance Indicators (KPIs), which require the achievement of operational targets, financial performance, HSE standards, portfolio growth and share price performance. These measures were met or exceeded for financial performance, portfolio growth and HSE standards; and between the threshold and on-target levels for operational and share price performance.

The choice of the Company performance targets for 2011 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. Similar targets will be used for the 2012 scheme.

Executive directors are able to receive performance pay of up to 100% of salary for performance that is in line with expectations. For outstanding individual and Company performance, bonuses of up to 200% of salary may be paid. At least one third of performance pay is paid in shares which vest after two years, subject to continued employment. The actual level of performance pay awarded to the executive directors in 2011 ranged between 84% and 93% of salary taking into account a blend of Company and individual performance.

Long term share incentives

In order to incentivise 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 plans. The current plans are the EnQuest PLC Performance Share Plan 2010 (2010 PSP), the EnQuest PLC Restricted Share Plan 2010 (2010 RSP) and the EnQuest PLC Deferred Bonus Share Plan 2010 (2010 DBSP). Executive directors received initial awards relating to the IPO under the 2010 RSP and subsequent long term share incentives under the 2010 PSP only.

2010 PSP

The 2010 PSP enables executive directors and selected senior employees to be granted conditional awards over Company 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 financial 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 share 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.

In 2011 PSP awards with a market value of 213% of salary were granted to Amjad Bseisu and Nigel Hares, and 211% for Jonathan Swinney. These awards were above the 200% limit to reflect the strong performance of the Company during the 2010 financial year.

Under the PSP, the shares vest subject to the achievement of performance conditions. The 2010 PSP share awards granted in 2011 had three sets of performance conditions associated with them. One third of the award relates to Total Shareholder Return (TSR) against a comparator group of 36 oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; one third relates to production growth per share, and one third relates to reserves growth per share, over a three year financial performance period.

TSR performance condition

The TSR targets for the 2011 awards are as follows:

Ranking against the comparator group	% of this element of the award which vests
Below median	0%
Median	30%
Upper quartile	100%



For performance between median and upper quartile vesting is determined on a pro-rata basis.

Production growth per share condition

Performance against this condition is measured from a base net export production per share of 21,074 Boepd as at 31 December 2010. The targets for the 2011 awards are as follows:

Average annual growth in net export production per share over three years	% of this element of the award which vests
Less than 105%	0%
105%	30%
110%	100%

For performance that is between 105% and 110% of base, vesting is determined on a pro-rata basis.

Reserves growth per share condition

Performance against this condition is measured from a base of net 2P reserves of 88.51 MMboe as at 31 December 2010. The targets for the 2011 awards are as follows:

3-year cumulative net 2P reserves	% of this element of the award which vests
Less than 110% of base	0%
110% of base	30%
125% of base	65%
150% of base	100%

For performance that is between 110% and 150% of base, vesting is determined on a pro-rata basis.

It is intended that the targets attached to the awards to be granted in 2012 will be similar to those used in 2011.

The remuneration committee granted an aggregate of 1,722,022 share awards to executive directors and senior management on 19 April 2011 and 18 August 2011.

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. 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. The 2010 RSP is 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 829,845 share awards to selected employees on 19 April 2011 and 18 August 2011.

2010 DBSP

Under the 2010 DBSP, employees, below executive director level, who achieve a pre-determined rating under the annual appraisal system, are invited to defer a proportion of their annual performance pay into Company shares. Under the plan, the shares which are acquired with a participant's performance pay 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 175,742 Matching Shares on 19 April 2011, which were awarded to participants on the basis of a 1:1 ratio to the Invested Shares. No further awards were granted under the 2011 DBSP during the year.

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 2011 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 2011 are shown in the remuneration table on page 50.

The 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 the 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 30 May 2012.



REMUNERATION REPORT CONTINUED

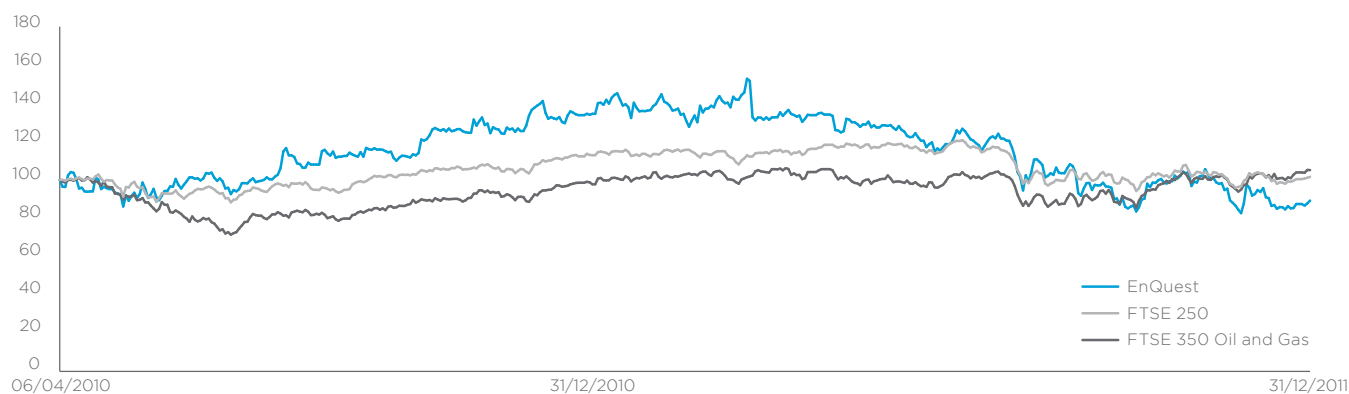
Details of the service contracts and letters of appointment of the current directors of the Company are given in the tables below:

	Date of appointment	Notice period
Executive service contract		
Amjad Bseisu	22 February 2010	12 months
Nigel Hares	22 February 2010	12 months
Jonathan Swinney	29 January 2010	12 months

	Date of appointment	Notice period	Initial term of appointment
Non-Executive letters of appointment			
Dr James Buckee	22 February 2010	3 months	2 years
Helmut Langanger	16 March 2010	3 months	3 years
Jock Lennox	22 February 2010	3 months	3 years
Alexandre Schneiter	22 February 2010	3 months	2 years
Clare Spottiswoode	1 July 2011	3 months	3 years

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 and Gas index.



Information subject to audit

Directors' remuneration for the year ended 31 December 2011

	Salary £	Cash allowance benefits ¹ £	Performance pay ² £	Fees £	Total 2011 £	Total 2010 £
Executive						
Amjad Bseisu	375,000	40,000	315,000	-	730,000	907,581
Nigel Hares	285,000	30,000	255,000	-	570,000	691,232
Jonathan Swinney	220,000	30,000	205,000	-	455,000	534,299
Non-Executive						
Dr James Buckee ³	-	-	-	200,000	200,000	147,222
Helmut Langanger	-	-	-	53,000	53,000	39,013
Jock Lennox	-	-	-	53,000	53,000	39,013
Alexandre Schneiter	-	-	-	45,000	45,000	33,125
Robin Pinchbeck ⁴	-	-	-	18,049	18,049	33,125
Clare Spottiswoode ⁵	-	-	-	22,500	22,500	-
Total	880,000	100,000	775,000	391,549	2,146,549	2,424,610



Notes:

- 1 Cash allowance in lieu of pension and other benefits. None of the directors are eligible to receive pension contributions from the Company. The executive directors receive the non-cash benefit of private medical insurance cover as well.
- 2 Performance pay was based on 2011 base salary levels and payment was made in respect of the full financial year. For Amjad Bseisu and Jonathan Swinney, one third of the performance pay will be paid in EnQuest PLC shares, deferred for two years and subject to continued employment. For Nigel Hares, two-thirds of the performance pay will be paid in EnQuest PLC shares, and deferred for two years and subject to continued employment.
- 3 Dr James Buckee received 50% of his 2011 fees as a cash payment in March 2012.
- 4 Robin Pinchbeck stood down as a director at the 2011 AGM on 25 May 2011.
- 5 Clare Spottiswoode was appointed as a non-executive director on 1 July 2011.

Directors' interests in restricted share plan awards as at 31 December 2011

Director	At 31 December 2010	Granted during year	Awards vested	At 31 December 2011	Vesting periods	Expiry date
Amjad Bseisu	1,609,063	-	-	1,609,063	1 April 2012-1 April 2014	31 March 2020
	591,324	-	-	591,324	19 April 2012-19 April 2014	18 April 2020
Nigel Hares ¹	268,177	-	268,177	-	1 April 2011	31 March 2020
	804,532	-	-	804,532	1 April 2012-1 April 2014	31 March 2020
Jonathan Swinney	536,354	-	-	536,354	1 April 2012-1 April 2014	31 March 2020
	163,387	-	-	163,387	19 April 2012-19 April 2014	18 April 2020

Notes:

- 1 An amount of 268,177 nil cost award shares granted to Nigel Hares under the Restricted Share Plan vested during the year but were not exercised. They were rolled over in line with the Plan rules.

Directors' interests in performance share plan awards as at 31 December 2011

Director	At 31 December 2010	Granted during year	Awards vested	At 31 December 2011	First vesting date	Expiry date
Amjad Bseisu	-	583,090	-	583,090	19 April 2014	18 April 2021
Nigel Hares	-	443,148	-	443,148	19 April 2014	18 April 2021
Jonathan Swinney	-	324,975	-	324,975	19 April 2014	18 April 2021

The table above shows the maximum number of shares that could be released if awards were to vest in full. The share price on the date of grant was 137.2p. These awards first vest on the third anniversary of the award date, subject to the achievement of performance conditions (as described on [pages 48 and 49](#)).

On behalf of the Board

Helmut Langanger
 Chairman of the remuneration committee
 26 March 2012

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 of 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 2011 which comprise the Group statement of comprehensive income, Group balance sheet, the Group statement of changes in equity, the Group statement of cash flows and the related notes 1 to 29. 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 auditor

As explained more fully in the Statement of Directors' Responsibilities in respect of the Group financial statements set out on [page 52](#), 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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the 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 42](#), in relation to going concern;
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance 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 2011 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
26 March 2012



GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011			2010		
		Business performance US\$'000	Exceptional items and depletion of fair value uplift (note 4) US\$'000	Reported in year US\$'000	Business performance US\$'000	Exceptional items and depletion of fair value uplift (note 4) US\$'000	Reported in year US\$'000
Revenue	5(a)	935,974	-	935,974	583,468	-	583,468
Cost of sales	5(b)	(491,817)	(16,973)	(508,790)	(384,485)	(16,319)	(400,804)
Gross profit/(loss)		444,157	(16,973)	427,184	198,983	(16,319)	182,664
Exploration and evaluation expenses	5(c)	(36,962)	-	(36,962)	(22,987)	(57,870)	(80,857)
Gain on disposal of asset held for sale		-	8,644	8,644	-	-	-
Impairment on investments		-	(12,497)	(12,497)	-	-	-
Impairment of oil and gas assets		-	-	-	-	(2,121)	(2,121)
Well abandonment		-	8,194	8,194	-	(8,194)	(8,194)
General and administration expenses	5(d)	(16,049)	-	(16,049)	(13,770)	(13,432)	(27,202)
Other income	5(e)	7,336	-	7,336	7,024	-	7,024
Other expenses	5(f)	(8,386)	-	(8,386)	(5,526)	-	(5,526)
Profit/(loss) from operations before tax and finance income/(costs)		390,096	(12,632)	377,464	163,724	(97,936)	65,788
Finance costs	6	(18,598)	-	(18,598)	(1,187)	-	(1,187)
Finance income	6	3,955	-	3,955	1,174	-	1,174
Profit/(loss) before tax		375,453	(12,632)	362,821	153,711	(97,936)	55,775
Income tax	7	(239,400)	(62,430)	(301,830)	(78,647)	49,948	(28,699)
Profit/(loss) for the year attributable to owners of the parent		136,053	(75,062)	60,991	75,064	(47,988)	27,076
Other comprehensive income for the year, after tax:							
Cash flow hedges (net of tax)	22			(2,600)			-
Available for sale financial assets	15			-			-
Total comprehensive income for the year, attributable to owners of the parent				58,391			27,076
Earnings per share	8			US\$			US\$
Basic				0.076			0.040
Diluted				0.076			0.040

The attached [notes 1 to 29](#) form part of these Group financial statements.



GROUP BALANCE SHEET AT 31 DECEMBER 2011

	Notes	2011 US\$'000	2010 Restated ¹ US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	1,273,558	1,134,249
Goodwill	12	107,760	107,760
Intangible oil and gas assets	13	24,347	9,602
Asset held for sale	14	1,254	9,778
Investments	15	6,734	-
Deferred tax assets	7	12,617	13,227
		1,426,270	1,274,616
Current assets			
Inventories	16	11,842	12,404
Trade and other receivables	17	126,554	132,617
Income tax receivable		2,618	-
Cash and cash equivalents	18	378,907	41,395
Other financial assets	22	2,510	-
		522,431	186,416
TOTAL ASSETS		1,948,701	1,461,032
EQUITY AND LIABILITIES			
Equity			
Share capital	19	113,433	113,174
Merger reserve		662,855	662,855
Cash flow hedge reserve		(2,600)	-
Share-based payment reserve		(5,961)	2,540
Retained earnings		166,481	104,327
TOTAL EQUITY		934,208	882,896
Non-current liabilities			
Provisions	23	181,237	140,108
Other financial liabilities	22	335	-
Deferred tax liabilities	7	590,010	294,699
		771,582	434,807
Current liabilities			
Trade and other payables	24	234,337	135,723
Other financial liabilities	22	6,870	-
Income tax payable		1,704	7,606
		242,911	143,329
TOTAL LIABILITIES		1,014,493	578,136
TOTAL EQUITY AND LIABILITIES		1,948,701	1,461,032

¹ Restated for fair value adjustments as set out in [note 11](#). In addition the 2010 comparatives are restated to be consistent with the treatment in 2011.

The attached [notes 1 to 29](#) form part of these Group financial statements.

The financial statements on [pages 54 to 86](#) were approved by the Board of Directors on 26 March 2012 and signed on its behalf by:

Jonathan Swinney
Chief financial officer

GROUP STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2011

	Share capital US\$'000	Merger reserve US\$'000	Cash flow hedge reserve US\$'000	Other reserves US\$'000	Share-based payments reserve US\$'000	Available for sale reserve (note 15) US\$'000	Retained earnings US\$'000	Total US\$'000
At 1 January 2010	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
Profit for the year	-	-	-	-	-	-	60,991	60,991
Other comprehensive income:								
Losses arising during the year on cash flow hedges (net of tax)	-	-	(2,600)	-	-	-	-	(2,600)
Marked to market value of investment	-	-	-	-	-	(10,629)	-	(10,629)
Reclassification of impairment of investments	-	-	-	-	-	10,629	-	10,629
Total comprehensive income for the year	-	-	(2,600)	-	-	-	60,991	58,391
Issue of shares to Employee Benefit Trust	259	-	-	-	(259)	-	-	-
Share-based payment charge	-	-	-	-	4,881	-	-	4,881
Bonus liability accrual settled in shares granted during the year	-	-	-	-	-	-	1,163	1,163
Shares purchased on behalf of Employee Benefit Trust	-	-	-	-	(13,123)	-	-	(13,123)
At 31 December 2011	113,433	662,855	(2,600)	-	(5,961)	-	166,481	934,208



GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US\$'000	2010 US\$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		362,821	55,775
Depreciation	5(d)	1,784	845
Depletion	5(b)	217,233	177,185
Exploration costs impaired and written off	5(c)	36,962	80,857
Impairment of oil and gas assets	4	-	2,121
Well abandonment	4	(8,194)	-
Gain on disposal of asset held for sale	4	(8,644)	-
Impairment on available for sale investments	4	12,497	-
Share-based payment charge	5(g)	4,881	3,070
Long term incentive plan	5(g)	-	717
Unwinding of discount on decommissioning provisions	6	7,793	5,196
Unrealised exchange losses		3,344	164
Net finance costs		6,850	4,817
Operating profit before working capital changes		637,327	330,747
(Increase)/decrease in trade and other receivables		(1,940)	8,532
Decrease in due from related parties		-	552
Decrease in inventories		562	442
Increase/(decrease) in trade and other payables		20,383	(72,038)
Decrease in due to related parties		-	(497)
Cash generated from operations		656,332	267,738
Long term incentive plan		-	(1,036)
Decommissioning spend		(9,192)	-
Income taxes paid		(10,855)	(4,093)
Net cash flows from operating activities		636,285	262,609
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(223,947)	(137,494)
Purchase of intangible oil and gas assets		(53,964)	(17,374)
Acquisition of subsidiaries - cash		-	21,556
Acquisition of available for sale investments		(808)	-
Interest received		1,834	35
Net cash flows used in investing activities		(276,885)	(133,277)
FINANCING ACTIVITIES			
Shares purchased by Employee Benefit Trust		(13,123)	-
Repayment of loans and borrowings		-	(86,251)
Interest paid		(1)	(3,393)
Other finance costs paid		(9,633)	(5,030)
Net cash flows used in financing activities		(22,757)	(94,674)
NET INCREASE IN CASH AND CASH EQUIVALENTS		336,643	34,658
Net foreign exchange on cash and cash equivalents		869	(1,156)
Cash and cash equivalents at 1 January		41,395	7,893
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		378,907	41,395

The attached [notes 1 to 29](#) form part of these Group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 Group's financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 26 March 2012.

A listing of the principal Group companies is contained in [note 29](#) 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 2011 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 2011.

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 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.

The combination of LNS with EnQuest in 2010 has been accounted for as a capital restructuring under the pooling of interests method.

IFRS 3 Business Combinations (Revised) requires the identification of the acquirer. Legally EnQuest acquired both PEDL and LNS, however in considering this transaction management looked to the application guidance provided by IFRS 3 (Revised) which applies where a new entity is formed to effect a combination between two or more existing entities. The guidance indicates where such a new entity issues equity instruments in itself in exchange for equity instruments in the acquired subsidiaries, then one of the acquired subsidiaries should be identified as the acquirer. As EnQuest did not meet the definition of a business combination then the combination of EnQuest with LNS was accounted for as a capital restructuring.

The combination of PEDL with LNS has been accounted for using the acquisition method, with LNS identified as the acquirer after considering the following principles:

- the relative voting rights in the combined entity after the business combination;
- the existence of a large minority voting interest in the combined entity;
- the composition of the governing body of the combined entity;
- the composition of the senior management of the combined entity;
- the terms of the exchange of equity interests.

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;
- the Group's equity reflects the capital restructuring of EnQuest and LNS at the beginning of 2009 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 4](#).



2. Summary of significant accounting policies (continued)

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.

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 2011. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters

The IASB issued an amendment to IFRS 1 which provides a limited exemption for first-time adopters from providing comparative fair value hierarchy disclosures under IFRS 7. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs (Issued in May 2010)

The IASB issued improvements to IFRS, an omnibus of amendments to its IFRS standards. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

IAS 1 Presentation of Financial Statements – The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

IAS 34 Interim Financial Statements – Emphasises that disclosure about significant events and transactions in interim periods should update relevant information presented in the most recent financial report and how to apply this principle in respect of financial instruments and their fair values.

Other amendments resulting from improvements to IFRSs to the following standards did not have an impact on the accounting policies, financial position or performance of the Group:

- IFRS 7 Financial Instruments – Disclosures

Interpretations

The following Interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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 these Standards when they become effective. The directors do not anticipate that the adoption of these Standards will have a material impact on the Group's accounts in the period of initial application.

IAS 1 Presentation of items of other comprehensive income – Amendments to IAS 1

The amendments change the grouping of items presented in the statement of comprehensive income. Items that would be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The revisions become effective for annual periods beginning on or after 1 July 2012.

IFRS 7 (Amended) Disclosures – Transfers of Financial Assets

The revision requires enhancements to the existing disclosures in IFRS 7 where an asset is transferred but not derecognised and introduces new disclosures for assets that are derecognised but the entity continues to have continuing exposure to the asset after sale. The revisions become effective for annual periods beginning on or after 1 July 2011.

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 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

2. Summary of significant accounting policies (continued) IFRS 10 Consolidated Financial Statements/IAS 27 (Revised) – Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities and introduces changes which will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent. The consolidation requirements forming part of IAS 27 will be revised and contained within IFRS 10. These Standards are effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 establishes a clear principle that is applicable to the accounting for all joint arrangements. The Standard is effective for annual periods beginning on or after 1 January 2013. The most significant change is that IFRS 11 requires the use of the equity method of accounting for interests in jointly controlled entities thereby eliminating the proportionate consolidation method.

IAS 28 (Revised) – Investments in Associates and Joint Ventures

The Standard will be revised due to the introduction of IFRS 10 and 11. The revision will become effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

Includes disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Standard is effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

The Standard defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The Standard does not include requirements on when fair value measurement is required but prescribes how fair value is to be measured if another Standard requires it. The Standard is effective for annual periods beginning on or after 1 January 2013.

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.

Group formation

For details see Group formation under the basis of preparation section of the accounting policies.

Determining the fair value of property, plant and equipment on business combinations

The Group determines the fair value of property, plant and equipment acquired based on the discounted cash flows at the time of acquisition, from the proven and probable reserves. In assessing the discounted cash flows the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects the market assessments of the time value of money and the risks specific to the asset at the time of the acquisition. In calculating the asset fair value the Group will apply the long term oil price assumption, escalated for inflation and discounted at the pre-tax rate. The oil price assumption will represent management's view of the long term oil price at the time of the transaction.

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, 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% (2010: 2%) and an annual discount rate of 5% (2010: 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 used forward curve prices for the first four years before reverting to the Group's long term pricing assumption and discounted at a pre-tax rate of 21.3% (2010: US\$85 per barrel, escalated at 2% 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 including those required in calculating the effective tax rate arising on exceptional items. In considering the tax on exceptionals, the Company considered varying rates depending on the category of expense but believes that using the effective rate, after adjusting for significant one-off charges, gives an overall approximation to the tax rate on exceptional items.

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 twelve months after the balance sheet date. Current assets and current liabilities consist solely of amounts that are expected to be recovered or paid within twelve months after the balance sheet date.

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%
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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 impaired and any impairment loss is recognised in the statement of comprehensive income. When exploration licences are relinquished without further development, any previous impairment loss is reversed and the carrying costs are written off through the statement of comprehensive income. When assets are declared part of a commercial development, related costs are transferred to property, plant and equipment 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.



NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

2. Summary of significant accounting policies (continued)

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.

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\$119.25 per barrel in 2012, US\$112.08 per barrel in 2013, US\$104.73 per barrel in 2014, US\$98.67 per barrel in 2015, US\$97.42 per barrel in 2016 and inflated at 2% per annum thereafter (2010: US\$85 per barrel, escalated at 2% per annum) and a discounted pre-tax rate of 21.3% (2010: 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.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All assets are recognised initially at fair value plus transactions costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date.

The Group's financial assets include cash and short term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL.



2. Summary of significant accounting policies (continued)

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Financial assets designated upon initial recognition at FVTPL are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. Where the Group is unable to trade these financial assets or management's intention to sell them in the foreseeable future changes significantly, the Group may elect to reclassify these assets. The reclassification to loans and receivables, available for sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVTPL using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation and losses arising from impairment are included in the profit or loss.

Available for sale financial investments

Listed and unlisted shares held by the Group that are traded in an active market are classified as being available for sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the available for sale reserve with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available for sale reserve is reclassified to profit or loss.

Loans and receivables

These include trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired where there is objective evidence of impairment that, as a result of one or more events that have occurred after the initial recognition of the asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an available for sale financial asset is considered to be impaired, cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss in the period. In respect of equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount is reduced through use of an allowance account and the amount of the loss is recognised in profit or loss.

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 the hedged item 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 when the forecast transaction which was the subject of the hedge occurs.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

2. Summary of significant accounting policies (continued)

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.

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. 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 hedged item, 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.



2. Summary of significant accounting policies (continued)

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 to the net carrying amount of the financial liability 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.

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 lesser) 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

2. Summary of significant accounting policies (continued)

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.

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 two customers; Shell International Trading and Shipping Company Limited is the major customer and revenue receivable amounted to US\$954,051,000 or 98% of total revenue (excluding oil hedge gains and losses) in the year ended 31 December 2011 (2010: US\$570,518,000 or 98% of total revenue).



4. Exceptional items and depletion of fair value uplift

	2011 US\$'000	2010 US\$'000
Recognised in arriving at profit from operations before tax and finance income/(costs):		
Gain on disposal of asset held for sale	(8,644)	-
Impairment of available for sale assets	12,497	-
Initial Public Offering and acquisition costs	-	8,143
Costs relating to the acquisition of Stratic	-	5,289
Impairment of oil and gas assets	-	59,991
Well abandonment	(8,194)	8,194
	(4,341)	81,617
Tax	62,430	(49,948)
	58,089	31,669
Depletion of fair value uplift	16,973	16,319
	75,062	47,988

Gain on disposal of asset held for sale

During the year the Group disposed of its held for sale interest in the Petisovci project in Slovenia in return for 150,903,958 new ordinary shares in Ascent Resources plc (Ascent) at a market value of US\$18,422,000 creating a gain of US\$8,644,000.

Impairment of available for sale assets

Following disposal of the held for sale Petisovci asset, the Group held an investment in Ascent. The accounting valuation of this shareholding at 31 December 2011 resulted in a non-cash impairment of US\$12,497,000.

Initial Public Offering and acquisition costs

In 2010, 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 were included in general and administration expenses in the statement of comprehensive income.

Costs relating to the acquisition of Stratic

In 2010, costs of US\$5,289,000 relating to the acquisition of Stratic Energy Corporation (Stratic) were included in general and administrative expenses in the statement of comprehensive income.

Impairment of oil and gas assets

There were no exceptional oil and gas assets impairment expenses during the year ended 31 December 2011. In the year ended 31 December 2010, impairment expenses were recognised on the Scolty (US\$25,034,000) and Peik area (US\$34,957,000) assets, of which US\$2,121,000 related to property, plant and equipment oil and gas assets ([note 10](#)) and US\$32,836,000 related to intangible oil and gas assets ([note 13](#)).

Well abandonment expenses

During the year a credit of US\$8,194,000 (2010: debit of US\$8,194,000) was recognised following a further review of options to recover funds from the previous Thistle field owners, relating to partial decommissioning of two wells covered by the Intervening Period and Decommissioning Liability Agreements.

Depletion of fair value uplift

Additional depletion arising from the fair value uplift of PEDL's oil and gas assets on acquisition of US\$16,973,000 (2010: US\$16,319,000) is included within cost of sales in the statement of comprehensive income.

Tax

In 2011, the enactment of the increase in the UK supplementary corporation tax rate on oil and gas activities in the North Sea increased the deferred tax charge in the income statement by US\$78,149,000, of which US\$68,086,000 relates to the revaluation of the opening deferred tax corporation tax balance. After adjusting for significant one-off charges, the Group has applied the Group's effective tax rate of 64.4% (2010: 51%) on exceptional items where appropriate.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2011

5. Revenue and expenses

(a) Revenue

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Revenue from crude oil sales	960,401	570,518
Loss on realisation of cash flow hedges	(36,509)	-
Revenue from condensate sales	-	1,695
Tariff revenue	11,672	11,255
Other operating revenue	410	-
	935,974	583,468

(b) Cost of sales

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Cost of operations	233,008	180,903
Tariff and transportation expenses	43,043	41,661
Change in lifting position	14,631	3,864
Inventory movement - hydrocarbons	875	(2,809)
Depletion of oil and gas assets (note 10)	217,233	177,185
	508,790	400,804

(c) Exploration and evaluation expenses

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Unsuccessful exploration expenditure written off (note 13)	-	13,608
Impairment charge (note 13)	36,962	67,249
	36,962	80,857

(d) General and administration expenses

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Staff costs (note 5(g))	45,177	31,788
Depreciation (note 10)	1,784	845
Other general and administration costs	12,523	17,280
Recharge of costs to operations and joint venture partners	(43,435)	(22,711)
	16,049	27,202

(e) Other income

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Foreign exchange gains	5,042	4,838
Other income	2,294	2,186
	7,336	7,024

(f) Other expenses

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Foreign exchange losses	8,386	5,526



5. Revenue and expenses (continued)

(g) Staff costs

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Wages and salaries	21,279	12,823
Social security costs	3,137	3,177
Defined contribution pension costs	1,194	841
Expense of share-based payments (note 20)	4,881	3,070
Long term incentive plan costs (note 20)	-	717
Other staff costs	1,845	651
Contractor costs	12,841	6,174
Redundancy costs	-	4,335
	45,177	31,788

The redundancy costs of US\$4,335,000 which were incurred by the Group in the prior year were as a result of the Stratic acquisition. These costs are included in 'costs relating to the acquisition of Stratic' which were reported as an exceptional item (note 4).

The average number of persons employed by the Group during the year was 112 (2010: 60).

Details of remuneration, pension entitlement and incentive arrangements for each director are set out in the Remuneration Report on pages 47 to 51.

(h) Auditors' remuneration

The following amounts were payable by the Group to its auditors Ernst & Young LLP during the year.

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Audit of the Group financial statements	136	141
Local statutory audits of subsidiaries	127	228
Tax services (i)	913	80
Other services pursuant to legislation	78	63
Corporate finance services (ii)	-	651
	1,254	1,163

(i) Costs of US\$620,000 (2010: nil) relating to tax advice on asset and corporate acquisitions are included in the balance sheet and will be capitalised as part of the cost of the asset.

(ii) Corporate finance services relate to the IPO and are included in the 'Initial Public Offering and acquisition costs' of US\$8,143,000 which are presented as an exceptional item (note 4) for the year ended 31 December 2010.

6. Finance income/costs

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Finance costs:		
Loan interest payable	-	1,693
Unwinding of discount on decommissioning provisions (note 23)	7,793	5,196
Cash flow hedge re-price premium	5,867	-
Other financial expenses	4,938	4,298
	18,598	11,187
Finance income:		
Bank interest receivable	1,808	939
Ineffectiveness of financial derivatives (note 22)	2,147	-
Other financial income	-	235
	3,955	1,174

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

7. Income tax

(a) Income tax

The major components of income tax expense are as follows:

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Group statement of comprehensive income		
<i>Current income tax</i>		
Current income tax charge	860	4,344
Adjustments in respect of current income tax of previous years	807	(2,121)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	226,970	25,899
Adjustments in respect of one-off increase in supplementary corporation tax	78,149	-
Adjustments in respect of deferred income tax of previous years	(4,956)	577
Income tax expense reported in statement of comprehensive income	301,830	28,699

(b) Reconciliation of total income tax charge

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

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Profit before tax	362,821	55,775
Statutory rate of corporation tax in the UK of 59.3% (2010: 50%)	215,168	27,888
Supplementary corporation tax non-deductible expenditure	888	1,364
Non-deductible expenditure	3,195	3,682
Petroleum revenue tax (net of income tax benefit)	14,465	3,241
Ring fence expenditure supplement	(6,341)	(6,093)
Tax in respect of non-ring fence trade	1,596	971
Deferred tax rate increase on North Sea oil and gas activities	78,149	-
Adjustments in respect of prior years	(4,149)	(1,544)
Overseas tax	(1,141)	(810)
At the effective income tax rate of 83% (2010: 51%)	301,830	28,699

(c) Deferred income tax

Deferred income tax relates to the following:

	Group balance sheet		Group statement of comprehensive income	
	2011 US\$'000	2010 Restated ¹ US\$'000	2011 US\$'000	2010 US\$'000
<i>Deferred tax liability</i>				
Accelerated capital allowances	775,486	552,829	222,657	(33,290)
Other temporary differences	46,345	6,347	39,999	2,334
	821,831	559,176		
<i>Deferred tax asset</i>				
Losses	(95,558)	(202,842)	107,284	69,525
Decommissioning liability	(112,368)	(70,054)	(42,314)	(12,093)
Other temporary differences	(36,512)	(4,808)	(27,463)	-
	(244,438)	(277,704)		
Deferred tax expense			300,163	26,476
Deferred tax liabilities, net	577,393	281,472		
Reflected in balance sheet as follows:				
Deferred tax assets	(12,617)	(13,227)		
Deferred tax liabilities	590,010	294,699		
Deferred tax liabilities, net	577,393	281,472		

¹ Restated for fair value adjustments as set out in [note 11](#). In addition the 2010 comparatives are restated to be consistent with the treatment in 2011.

In addition to the amount charged to the profit and loss, a deferred tax credit of US\$4,242,000 (2010: nil) has been taken directly to equity in respect of cash flow hedges ([note 22](#)).

(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.



7. Income tax (continued)

(d) Tax losses (continued)

During the prior year, deferred tax assets of US\$9,669,000 were recognised 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 2011.

The Group has unused overseas tax losses in Canada of approximately CAD\$76,577,000 (2010: CAD\$77,361,000) and in Holland of €920,000 (2010: €920,000) for which no deferred tax asset has been recognised at the balance sheet date. The tax losses in Canada have expiry periods of between 7 and 20 years, none of which expire in 2012, and are subject to utilisation in restricted circumstances following the change in control of Stratic. Tax losses in Holland can be carried forward for a period up to nine years and are likely to expire in 2012. The overseas tax losses result from the Stratic acquisition on 5 November 2010 and there was a high degree of uncertainty in relation to the tax loss position of the acquired overseas entities following acquisition as the tax compliance in the overseas entities had not been completed for a number of years. The Group undertook a significant exercise to update the tax compliance history of the overseas entities acquired, which completed in December 2011, giving a basis for estimating the unused tax loss position as at 31 December 2010 and 2011.

(e) Change in legislation

The UK government has released draft legislation to restrict the tax relief available on decommissioning expenditure to 50% in 2012. This change is not yet substantively enacted but is likely to give rise to a one-off exceptional additional tax charge in 2012 in the order of US\$21,600,000.

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.

Basic and diluted earnings per share are calculated as follows:

	Profit after tax		Weighted average number of shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2011 US\$'000	2010 US\$'000	2011 Million	2010 Million	2011 US\$	2010 US\$
Basic	60,991	27,076	801.7	686.8	0.076	0.040
Dilutive potential of Ordinary shares granted under share-based incentive schemes	-	-	2.9	5.6	-	-
Adjusted	60,991	27,076	804.6	692.4	0.076	0.040

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2011 (2010: 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 2010	835,926	4,646	840,572
Additions	148,492	2,366	150,858
Change in decommissioning provision	15,172	-	15,172
Acquisition of subsidiaries (restated ¹)	629,011	801	629,812
At 31 December 2010 (restated ¹)	1,628,601	7,813	1,636,414
Additions	291,723	4,677	296,400
Reclassified from intangible assets (note 13)	11,204	-	11,204
Change in decommissioning provision	50,722	-	50,722
At 31 December 2011	1,982,250	12,490	1,994,740
Depletion and depreciation:			
At 1 January 2010	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
Charge for the year	217,233	1,784	219,017
At 31 December 2011	715,222	5,960	721,182
Net carrying amount:			
At 31 December 2011	1,267,028	6,530	1,273,558
At 31 December 2010	1,130,612	3,637	1,134,249
At 1 January 2010	517,243	1,315	518,558

1 Restated for fair value adjustments as set out in note 11.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

10. Property, plant and equipment (continued)

No interest has been capitalised within oil and gas assets during the year (2010: nil).

The net book value at 31 December 2011 includes US\$107,433,000 (2010: US\$5,344,000) of pre-development assets and development assets under construction which are not being depreciated.

During the year ended 31 December 2011 there were no tangible asset write offs. During the prior year, capitalised pre-development costs of US\$2,121,000 and intangible asset licence costs of US\$32,836,000 (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

The acquisition of Stratic was completed on 5 November 2010 whereby the Group acquired 100% of the issued share capital for a consideration of US\$54,163,000, satisfied by the issue and allotment of 24,434,983 EnQuest Ordinary shares. The fair value allocation of the former Stratic assets and liabilities was accounted for using the acquisition method in 2010. The fair value was provisional at 31 December 2010 and has been reviewed in accordance with the provisions of IFRS 3 Business Combinations (Revised).

The fair value of the purchase consideration was derived from the opening share price of EnQuest shares on 5 November 2010, as quoted on the London Stock Exchange.

The initial fair values of assets and liabilities recognised on acquisition have been updated to reflect the finalisation of tax estimates and working capital adjustments and revisions to the valuation of intangible assets. The 48.75% interest in the Petisovci project was initially fair valued at the 30 day average market value of the 150,903,958 new ordinary shares in Ascent, which were received in return for the disposal of the asset on 11 February 2011. Following further review of the trading levels and price volatility of the Ascent shares, this valuation has been amended resulting in a reduction to the acquisition fair value of US\$8,886,000. Also, following our unsuccessful sale process during the year, the fair value of the Dutch Sector P8 (Horizon West) area was reduced to nil.

The changes to the fair value of the identifiable assets and liabilities of Stratic are as follows:

	Revised fair values US\$'000	Initial fair value recognised on acquisition US\$'000	(Decrease)/ increase to the fair value recognised on acquisition US\$'000
Assets			
Property, plant and equipment	129,286	131,486	(2,200)
Intangible oil and gas assets	11,222	22,809	(11,587)
Deferred tax assets	9,669	5,149	4,520
Inventories	2,215	2,215	-
Trade receivables	55	55	-
Other receivables and prepayments	4,869	4,506	363
Cash	5,421	5,421	-
	162,737	171,641	(8,904)
Liabilities			
Provision - decommissioning	(10,840)	(10,840)	-
Loans and borrowings	(87,969)	(87,969)	-
Trade and other payables	(9,576)	(9,793)	217
Accrued expenses	(10,692)	(10,692)	-
	(119,077)	(119,294)	217
Total identifiable net assets at fair value	43,660	52,347	(8,687)
Goodwill arising on acquisition	10,503	1,816	8,687
Purchase consideration transferred, comprising 24,434,983 Ordinary £0.05 EnQuest shares	54,163	54,163	-

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 including the benefits of greater financial and commercial strength. None of the recognised goodwill will be deductible for income tax purposes.



11. Business combinations (continued)

No business combination expenses relating to the above transactions have been expensed in the year (2010: US\$5,289,000). During 2010, from the date of acquisition, Stratic contributed US\$6,511,000 to revenue and US\$70,000 to the net profit before tax of the Group. If the combination had taken place at the beginning of 2010, net profit of the Group for 2010 would have been US\$28,767,000 and revenue would have been US\$608,210,000.

Acquisition of Petrofac Energy Developments Limited

The acquisition of Petrofac Energy Developments Limited (PEDL) was completed in 2010 whereby the Group acquired 100% of the ordinary shares satisfied by the issue and allotment of 345,629,916 EnQuest Ordinary shares. The fair value allocation was accounted for using the acquisition method in 2010. The fair value allocation of the former PEDL assets and liabilities was provisional at 31 December 2010 and has been reviewed in accordance with the provision of IFRS 3 Business Combinations (Revised).

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.

The initial fair values of assets and liabilities recognised on acquisition have been updated to reflect the finalisation of working capital adjustments.

The changes to the fair value of the identifiable assets and liabilities of PEDL are as follows:

	Revised fair values US\$'000	Initial fair value recognised on acquisition US\$'000	Increase/ (decrease) to the fair value recognised on acquisition US\$'000
Assets			
Property, plant and equipment	500,526	500,526	-
Deferred income tax asset	27,310	27,310	-
Inventories	9,335	9,335	-
Trade receivables	5,626	4,884	742
Joint venture receivables	30,551	51,678	(21,127)
Other receivables and prepayments	21,253	20,051	1,202
Cash	16,135	16,135	-
	610,736	629,919	(19,183)
Liabilities			
Provision – decommissioning	(55,966)	(55,966)	-
Deferred tax liability	(40,510)	(37,665)	(2,845)
Trade and other payables	(69,310)	(94,183)	24,873
Accrued expenses	(29,040)	(29,040)	-
	(194,826)	(216,854)	22,028
Total identifiable net assets at fair value	415,910	413,065	2,845
Goodwill arising on acquisition	97,257	100,102	(2,845)
Purchase consideration transferred, comprising 345,629,616 Ordinary £0.05 EnQuest shares	513,167	513,167	-

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 including the benefits of operational scale, access to a wider technical skill base and greater financial strength. None of the recognised goodwill will be deductible for income tax purposes.

No business combination expenses relating to the above transactions have been expensed in the year (2010: US\$1,733,000).

During 2010 from the date of acquisition, PEDL 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 2010, the net profit before tax of the Group for 2010 would have been US\$54,311,000 and revenue would have been US\$614,357,000.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

12. Goodwill

A summary of the movement in goodwill is presented below:

	2011 US\$'000	2010 Restated ¹ US\$'000
At 1 January	107,760	-
Acquisitions:		
Petrofac Energy Developments Limited	-	97,257
Stratic Energy Corporation	-	10,503
At 31 December	107,760	107,760

¹ Restated for fair value adjustments as set out in [note 11](#).

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

In accordance with IAS 36 Impairment of Assets, goodwill was reviewed for impairment at the year end. In assessing whether goodwill has been impaired, the carrying amount of the CGU, including goodwill, is compared with its recoverable amount.

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 and is reassessed each year. 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 forward price curves for the first four years before reverting to the Group's long term pricing assumptions. For the purposes of calculating value in use, management has applied an oil price assumption of US\$119.25 per barrel in 2012, US\$112.08 per barrel in 2013, US\$104.73 per barrel in 2014, US\$98.67 per barrel in 2015, US\$97.42 per barrel in 2016 and inflated at 2% per annum thereafter. In 2010, oil prices were based on management's assessment of oil price using publicly available forecast commodity prices; 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 were taken from the report prepared 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 into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings. Segment risk is incorporated by applying a beta factor based on publicly available market data. The discount rate applied to the Group's pre-tax cash flow projections is 21.3% (2010: 19%).

Sensitivity to changes in assumptions

There are reasonably possible changes in key assumptions which could erode the estimated amount of US\$984,000,000 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 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 US\$80.71 per barrel, escalated at 2% per annum (2010: US\$65 per barrel, escalated at 2% per annum).
- production volumes: estimated production volumes were taken from the report prepared by the Group's independent reserve assessment experts. On a weighted average basis, production would need to fall by 13% (2010: 24%) to cause the recoverable amount to fall below the carrying amount of the CGU (using a simplified oil price assumption of US\$90 per barrel).



13. Intangible oil and gas assets

	US\$'000
Cost	
At 1 January 2010	102,914
Additions	17,374
Acquisition of subsidiaries (restated ¹)	11,222
Unsuccessful exploration expenditure written off	(13,608)
Reclassified to asset held for sale (note 14)	(9,778)
At 31 December 2010 (restated ¹)	108,124
Additions	64,165
Write-off of relinquished licences previously impaired	(34,127)
Reclassified to tangible fixed assets (note 10)	(11,204)
Reclassified to asset held for sale (note 14)	(1,254)
At 31 December 2011	125,704
Provision for impairment	
At 1 January 2010	(31,273)
Impairment charge for the year	(67,249)
At 31 December 2010	(98,522)
Impairment charge for the year	(36,962)
Write-off of relinquished licences previously impaired	34,127
At 31 December 2011	(101,357)
Net carrying amount:	
At 31 December 2011	24,347
At 31 December 2010	9,602
At 1 January 2010	71,641

¹ Restated for fair value adjustments as set out in note 11.

During the year ended 31 December 2011, US\$34,127,000 of costs relating to relinquished licences were written off. These had previously been impaired in full. Also, during the year costs of US\$36,962,000 were impaired relating to dryhole wells or uneconomic assessment on evaluation of the assets.

During the prior year, capitalised intangible asset licence costs of US\$32,836,000 and pre-development costs of US\$2,121,000 (note 10) associated with the Peik area were impaired based on the Group's initial 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 including US\$25,034,000 in relation to the Scolty area.

During 2011, the Group acquired a 40% farm in interest in the Crathes area. Following a successful Crathes exploration well in Q4 2011, the Group is evaluating the potential commerciality of the combined Crathes, Scolty and Torphins area; however reversal of the 2010 Scolty impairment will not be considered until commerciality of the area development is confirmed on Field Development Plan (FDP) approval.

14. Assets held for sale

	US\$'000
At 1 January 2010	-
Reclassified from intangible fixed assets (note 13)	9,778
At 31 December 2010 (restated ¹)	9,778
Disposals	(9,778)
Reclassified from intangible fixed assets (note 13)	1,254
At 31 December 2011	1,254

¹ Restated for fair value adjustments as set out in note 11.

On 11 February 2011, the Group disposed of its held for sale interest in the Petisovci project (Petisovci) in Slovenia in return for 150,903,958 new ordinary shares in Ascent at a market value of US\$18,422,000, creating a gain of US\$8,644,000.

During 2011, the 'FQuad' Dutch assets were reclassified as 'held for sale' as they are subject to a swap arrangement whereby these will be transferred to Sterling Resources Limited for a 50% share in the Cairngorm licence Block 16/3d.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

15. Investments

	2011 US\$'000
Cost	
At 1 January 2011	-
Additions	19,231
At 31 December 2011	19,231
Provision for impairment	
At 1 January 2011	-
Impairment charge for the year	(12,497)
At 31 December 2011	(12,497)
Net carrying amount: At 31 December 2011	6,734
At 31 December 2010	-

The Group acquired an investment of 150,903,958 new ordinary shares in Ascent at a market value of US\$18,422,000 on the disposal of the held for sale Petisovci asset on 11 February 2011. A further 10,000,000 shares were purchased during the year increasing the value of the investment to US\$19,231,000. The accounting valuation of the Group's shareholding (based on the movement in the quoted share price of Ascent) resulted in an initial non-cash impairment of US\$10,629,000 followed by a further non-cash impairment of US\$1,868,000. The total non-cash impairment at 31 December 2011 is US\$12,497,000.

16. Inventories

	2011 US\$'000	2010 US\$'000
Crude oil	11,842	12,404

17. Trade and other receivables

	2011 US\$'000	2010 Restated ¹ US\$'000
Trade receivables	75,031	77,945
Joint venture receivables	33,411	41,535
Other receivables	9,313	5,430
	117,755	124,910
Prepayments and accrued income	8,799	7,707
	126,554	132,617

¹ Restated for fair value adjustments as set out in [note 11](#) and joint venture receivables are restated to be consistent with the treatment in 2011.

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 2011 no impairment provision for trade receivables was necessary (2010: nil).

Joint venture receivables relate to billings to joint venture partners and were not impaired. There were US\$705,000 of joint venture receivables past due and not impaired at 31 December 2011 (2010: US\$547,000 past due but not impaired).

As at 31 December 2011 other receivables of nil (2010: US\$8,194,000) were determined to be impaired. During the year, the prior year impairment was reversed following a further review of options to recover these expenses ([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.



18. 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.

19. Share capital

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

	2011 US\$'000	2010 US\$'000
Authorised, issued and fully paid		
802,660,757 (2010:799,462,905) Ordinary shares of £0.05 each	61,249	60,990
Share premium	52,184	52,184
	113,433	113,174

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

On 14 April 2011, 3,197,852 (7 April 2010: 6,962,020) Ordinary shares of £0.05 each were issued at par and allotted to the Company's Employee Benefit Trust to satisfy awards made under the Company's share-based incentive schemes.

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 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.

20. 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 Deferred Bonus Share Plan, a Restricted Share Plan and a Performance Share Plan.

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 2011 will vest 33% on the first anniversary of the date of grant, a further 33% after year two and the final 34% on the third anniversary of the date of grant. 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
2011 awards	137p	84%
2010 awards	101p	98%

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

	2011 Number*	2010 Number*
Outstanding at 1 January	390,730	-
Granted during the year	351,444	390,730
Vested during the year	(94,292)	-
Forfeited during the year	(121,802)	-
Outstanding at 31 December	526,080	390,730

* Includes invested and matching shares.

The charge recognised in the 2011 statement of comprehensive income in relation to matching share awards amounted to US\$308,000 (2010: US\$72,000).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

20. Share-based payment plans (continued)

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 and 2011 under the RSP will vest over periods between one and four years. At present there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future. The fair 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
2011 awards	119p	95%
2010 awards	104p	98%

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

	2011 Number	2010 Number
Outstanding at 1 January	7,926,411	-
Granted during the year	829,845	7,926,411
Vested during the year	(298,515)	-
Forfeited during the year	(420,786)	-
Outstanding at 31 December	8,036,955	7,926,411

The charge recognised in the year ended 31 December 2011 amounted to US\$3,767,000 (2010: US\$2,997,000).

Performance Share Plan (PSP)

Under the Performance Share Plan, the shares vest subject to performance conditions. The 2010 PSP share awards granted in 2011 had three sets of performance conditions associated with them. One third of the award relates to Total Shareholder Return (TSR) against a comparator group of 36 oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; one third relates to production growth per share, and one third relates to reserves growth per share, over the three year performance period.

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 PSP scheme are shown below:

	Weighted average fair value per share	Trued up vesting rate
2011 awards	137p	97%

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

	2011 Number	2010 Number
Outstanding at 1 January	-	-
Granted during the year	1,722,022	-
Forfeited during the year	(53,500)	-
Outstanding at 31 December	1,668,522	-

The charge recognised in the year ended 31 December 2011 amounted to US\$806,000 (2010: nil).

The Company has recognised a total charge of US\$4,881,000 (2010: US\$3,070,000) in the statement of comprehensive income during the year, relating to the above employee share-based schemes.



20. 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 in 2010, resulting in total costs of US\$717,000 for the year ended 31 December 2010. There were no costs incurred in the year ended 31 December 2011.

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:

	2011 Average weighted exercise price SEK per share	2011 Number of shares	2010 Average weighted exercise price SEK per share	2010 Number of shares
At 1 January	-	-	78.05	118,250
Lapsed	-	-	78.05	(118,250)
At 31 December	-	-	-	-

21. Loans and borrowings

(i) Revolving credit facility

At 31 December 2011 the Group had 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 and due to mature on 17 March 2012. Under the terms of the facility agreement, the Group has the ability to draw loans to a maximum value of US\$156,250,000 and utilise Letters of Credit (LoC) to a maximum aggregate value of US\$123,750,000.

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 2011 there were no borrowings under the Group's facility agreement (2010: nil) and LoC utilisation of US\$123,750,000 (2010: US\$74,000,000).

(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 and a working capital settlement payable by LNS, was capitalised on 6 April 2010.

Reconciliation of loan assignment to capital contribution on assignment of debt on de-merger:

	US\$'000
Loans assigned to Lundin Petroleum on de-merger	156,000
Working capital settlement payable to Lundin Petroleum	(9,337)
Loan receivable from Lundin Petroleum at 31 December 2009	(21,443)
Capital contribution on assignment of debt on de-merger	125,220

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

22. Other financial assets and financial liabilities

	2011 US\$'000	2010 US\$'000
Financial instruments at fair value through other comprehensive income		
<i>Current liabilities</i>		
Cash flow hedges:		
Forward foreign currency contracts	6,507	-
<i>Non-current liabilities</i>		
Cash flow hedges:		
Forward foreign currency contracts	335	-
Financial instruments at fair value through profit or loss		
<i>Current assets</i>		
Derivatives not designated as hedges:		
Commodity forward contracts	2,510	-
<i>Current liabilities</i>		
Derivatives not designated as hedges:		
Commodity forward contracts	363	-
Total current assets	2,510	-
Total assets	2,510	-
Total current liabilities	6,870	-
Total non-current liabilities	335	-
Total liabilities	7,205	-

The fair value measurements of the financial instruments held by the Group have been derived based on observable market inputs (as categorised within Level 2 of the fair value hierarchy under IFRS 7).

Commodity forward contracts

During the fourth quarter of 2010, the Group entered into four zero premium oil price collars to partially hedge its exposure to fluctuations in oil prices in 2011. Each collar hedged the price of approximately 1,000,000 barrels of oil in 2011. Losses of US\$36,509,000 (2010: nil) on the unwinding of these contracts during the year are included within revenue in the comprehensive income statement.

In November 2011, the Group entered into five separate put and call options in order to hedge the changes in future cash flows from the sale of Brent oil production for approximately 3,000,000 barrels of oil in 2012. These instruments were deemed to be ineffective and are therefore designated as at fair value through profit and loss (FVTPL). The derivative instruments had a net asset fair value of US\$2,147,000 (2010: nil) and gains of US\$2,147,000 (2010: nil) were taken into profit and loss during the year and are included within other financial income.

Forward foreign currency contracts

During the year ended 31 December 2011, the Group had also entered into 11 forward currency contracts to partially hedge the Group's exposure to fluctuations in foreign currencies, namely Sterling and Euro, of which nine will mature in 2012 and 2013.

These contracts qualify for hedge accounting. At 31 December 2011 the total fair value of these derivatives was a liability of US\$6,842,000 (2010: nil). An unrealised loss of US\$2,600,000 (2010: nil) relating to the hedging instruments is included in other comprehensive income net of deferred tax of US\$4,242,000 (2010: nil). There was no impact in profit or loss during the year (2010: nil) in respect of these contracts.



23. Provisions

	Decommissioning US\$'000	Others US\$'000	Total US\$'000
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
Additions during the year	33,821	-	33,821
Changes in estimates	16,901	-	16,901
Unwinding of discount	7,793	-	7,793
Utilisation	(17,386)	-	(17,386)
At 31 December 2011	181,237	-	181,237

Provision for decommissioning

The Group makes full provision for the future costs of decommissioning its oil production facilities and pipelines on a discounted basis. With respect to the Heather field, the decommissioning provision is based on the Group's contractual obligation of 37.5% of the decommissioning liability rather than the Group's equity interest in the field.

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% (2010: 5.0%). The unwinding of the discount is classified as a finance cost ([note 6](#)).

These provisions have been created based on internal and third party estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning liabilities is likely to depend on the dates when the fields cease to be economically viable. This in turn depends on future oil prices, which are inherently uncertain.

24. Trade and other payables

	2011 US\$'000	2010 Restated ¹ US\$'000
Trade creditors	26,215	8,016
Accrued expenses	192,494	124,536
Other payables	15,628	3,171
	234,337	135,723

1 Restated for fair value adjustments as set out in [note 11](#) and accrued expenses are restated to be consistent with the treatment in 2011.

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 Sterling.

Accrued expenses include accruals for capital and operating expenditure in relation to the 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

25. 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:

	2011 US\$'000	2010 US\$'000
Not later than one year	1,372	1,725
After one year but not more than five years	2,170	3,433
	3,542	5,158

Lease payments recognised as an operating lease expense during the year amounted to US\$2,066,054 (2010: US\$1,163,446).

Under the Dons Northern Producer agreement a minimum notice period of twelve months exists, whereby the Company expects the minimum commitment under this agreement to be approximately US\$47,000,000 (2010: US\$53,000,000).

Capital commitments

At 31 December 2011, the Group had capital commitments excluding the above lease commitments amounting to US\$310,408,000 (2010: US\$78,602,000).

26. Related party transactions

The Group financial statements include the financial statements of EnQuest PLC and its subsidiaries. A list of the Group's principal subsidiaries is contained in [note 29](#) to these Group financial statements.

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

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management.

The following table provides the total amount of transactions which have been entered into with related parties who are not members of the Group:

	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	-	-	-

Following the restructure on 6 April 2010, Lundin Petroleum BV ceased to be a related party. There have been no other transactions with related parties during 2011.

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 executive and non-executive directors of the Company and other senior personnel:

	2011 US\$'000	2010 US\$'000
Short term employee benefits	3,849	4,992
Share-based payments	2,850	2,323
Post employment pension benefits	29	38
	6,728	7,353



27. Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities comprise trade and other receivables, cash and short term deposits, interest-bearing loans and borrowings, derivative financial instruments 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 2011 and 2010 using the amounts of debt and other financial assets and liabilities held at those reporting dates.

Commodity price risk – oil prices

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

During 2010, the Board of EnQuest approved a policy to hedge up to a maximum of 50% of annual oil production. During the fourth quarter of 2010, four zero premium oil price collars were entered into to hedge the Group's exposure to fluctuation in oil prices, hedging approximately 4,000,000 barrels of oil in 2011. In November 2011, the Group entered into five separate put and call options to hedge approximately 3,000,000 barrels of oil in 2012.

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

	Pre-tax profit		Total 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 2011	70,836	(67,500)	26,918	(25,650)
31 December 2010	69,746	(69,746)	20,661	(33,478)

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 2% (2010: 6%) of the Group's sales and 86% (2010: 79%) of costs are denominated in currencies other than the functional currency.

During the year ended 31 December 2011, the Group had entered into 11 forward currency contracts of which nine mature in 2012 and 2013 to partially hedge the Group's exposure to fluctuations in foreign currencies, namely Sterling and Euro. These contracts qualify for hedge accounting and have been disclosed within [note 22](#).

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		Total 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 2011	(25,056)	25,056	1,438	(1,438)
31 December 2010	(22,664)	22,664	(10,879)	10,879

Credit risk

The Group trades only with recognised, international oil and gas operators and at 31 December 2011 there were no trade receivables past due (2010: nil), and US\$705,000 of joint venture receivables past due but not impaired (2010: US\$547,000). Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2011

27. Risk management and financial instruments (continued)

Ageing of past due but not impaired receivables	2011 US\$'000	2010 US\$'000
Less than 30 days	7	14
30-60 days	-	4
60-90 days	622	529
90-120 days	21	-
120+ days	55	-
	705	547

At 31 December 2011, the Group had one customer accounting for 92% of outstanding trade and other receivables (2010: one customer, 97%) and six joint venture partners accounting for 80% of joint venture receivables (2010: three joint venture partners, 82%).

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 counterparty 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 2011 the Group was in compliance with all financial covenant ratios agreed with its bankers.

At 31 December 2011, the Group had US\$156,250,000 (2010: US\$206,000,000) of undrawn committed borrowing facilities available which were due to expire in March 2012. On 6 March 2012, a new US\$900,000,000 Multi-Currency Revolving Credit Facility Agreement with Lloyds TSB Bank, Bank of America Merrill Lynch, Barclays, BNP Paribas, Crédit Agricole CIB, NICB Bank and Royal Bank of Scotland was established. The new facility comprises a committed amount of US\$525,000,000 for three years extendable to four years at the option of the Group (provided conditions are met) and a further year with the consent of the lenders. In addition, US\$375,000,000 is available primarily for investment opportunities also with the lenders' consent. The Letters of Credit of US\$123,750,000 under the old facility have been rolled into the new facility. An upfront arrangement fee of 1.75% was payable.

Interest on the revolving credit facility is payable at LIBOR relative to each agreed loan period plus a margin of 2.25% to 3.25% dependent on the Group's leverage ratio. Facility non-utilisation commitment fees are payable at 40% of the interest margin.

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

Year ended 31 December 2011	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	234,337	-	-	-	234,337
Financial expenses	-	922	-	-	922
	234,337	922	-	-	235,259

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	135,723	-	-	-	135,723
Financial expenses	-	3,983	1,320	-	5,303
	135,723	3,983	1,320	-	141,026

The following tables detail the Group's expected maturity of payables/(receivables) for its derivative financial instruments. The amounts in these tables are different to the balance sheet as the table is prepared on a contractual undiscounted cash flow basis.

Year ended 31 December 2011	On demand US\$'000	Less than 3 months US\$'000	3 to 12 months US\$'000	1 to 2 years US\$'000	>2 years US\$'000	Total US\$'000
Foreign exchange forward contracts	-	50,691	219,750	25,395	-	295,836
Foreign exchange forward contracts	-	(50,691)	(219,750)	(25,395)	-	(295,836)
	-	-	-	-	-	-



27. Risk management and financial instruments (continued)

At 31 December 2011, the Group held commodity forward contracts for which, based on the oil price at 31 December 2011, there were no projected contracted cash flows.

At 31 December 2010, the Group did not hold any foreign exchange forward contracts. In respect of the oil price collars held at 31 December 2010 the oil price was between the cap and floor prices and therefore there were no projected contracted cash flows.

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, reassessed 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 appropriate flexibility. [Note 21](#) 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 56](#).

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

	2011 US\$'000	2010 US\$'000
Loans and borrowings, net (A)	-	-
Cash and short term deposits	378,907	41,395
Net debt (B)	378,907	41,395
Equity attributable to EnQuest PLC shareholders (C)	934,208	882,896
Profit for the year attributable to EnQuest PLC shareholders (D)	60,991	27,076
Gross gearing ratio (A/C)	n/a	n/a
Net gearing ratio (B/C)	n/a	n/a
Shareholders' return on investment (D/C)	7%	3%

28. Post balance sheet events

On 9 January 2012, the Group announced its agreement with Canamens Limited to acquire two of its companies, whose assets include a 20% interest in the Kraken oil discovery. The Group paid an initial consideration of US\$45,000,000 in cash and a further payment of US\$45,000,000 is contingent upon approval of the Kraken Field Development Plan (FDP) by the Department of Energy and Climate Change (DECC). Due to the proximity to the year end, an assessment of whether this acquisition should be accounted for as an asset acquisition or business combination has still to be made and will be reviewed prior to the Group's 2012 half year results announcement.

On 13 January 2012, the Group entered a Sale and Purchase Agreement with JX Nippon Exploration & Production (UK) Limited to purchase 18.5% working interest in the West Dons Field for US\$34,000,000.

On 24 January 2012, the Group announced an agreement with Nautical Petroleum plc (Nautical) to acquire a further 25% interest in the Kraken oil discovery, together with interests in surrounding exploration acreage. This agreement is subject to the normal regulatory and partner consents. EnQuest will pay Nautical between US\$150,000,000 and US\$240,000,000 (dependant on a future determination of the gross 2P reserves), by way of a development carry arrangement in relation to Nautical's remaining interest in the discovery.

The Uisge Gorm Floating Production, Storage and Offloading vessel (FPSO) was procured on 25 January 2012 for US\$52,500,000.

On 6 March 2012, in anticipation of the maturity of the existing Revolving Credit Facility Agreement, EnQuest PLC established a three year US\$900,000,000 Multi-Currency Revolving Credit Facility Agreement, the details of which can be found within [note 27](#) to the financial statements under liquidity risk.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

29. Subsidiaries

At 31 December 2011, 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 the financial statements the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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 year ended 31 December 2011 which comprise the Company Balance Sheet and the related [notes 1 to 13](#). 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 Statement of Directors' responsibilities set out on [page 87](#), 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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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 Group financial statements of EnQuest PLC for the year ended 31 December 2011.

Ernst & Young LLP

Gary Donald (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 March 2012



COMPANY BALANCE SHEET AT 31 DECEMBER 2011

	Note	2011 US\$'000	2010 US\$'000
ASSETS			
Non-current assets			
Investments	<u>3</u>	1,203,291	1,197,602
Debtors	<u>5</u>	2,664	638
		1,205,955	1,198,240
Current assets			
Amounts due from subsidiaries		8,313	10,083
Cash and cash equivalents	<u>4</u>	155	157
Derivative financial instruments	<u>7</u>	2,510	-
		10,978	10,240
TOTAL ASSETS		1,216,933	1,208,480
EQUITY AND LIABILITIES			
Equity			
Issued share capital	<u>8</u>	61,249	60,990
Share premium account	<u>9</u>	52,184	52,184
Merger reserve	<u>9</u>	1,081,890	1,081,890
Cash flow hedge reserve	<u>9</u>	(4,026)	-
Share-based payment reserve	<u>9</u>	(5,961)	2,540
Retained losses	<u>9</u>	(7,935)	(8,371)
TOTAL EQUITY		1,177,401	1,189,233
Current liabilities			
Accruals		621	1,990
Amounts due to subsidiaries		33,108	17,257
Derivative financial instruments	<u>7</u>	5,468	-
		39,197	19,247
Creditors: amounts falling due after more than one year			
Derivative financial instruments	<u>7</u>	335	-
TOTAL LIABILITIES		39,532	19,247
TOTAL EQUITY AND LIABILITIES		1,216,933	1,208,480

The attached [notes 1 to 13](#) form part of these Company financial statements.

The financial statements on [pages 89 to 94](#) were approved by the Board of Directors on 26 March 2012 and signed on its behalf by:

Jonathan Swinney
Chief financial officer

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. Corporate information

The Company financial statements of EnQuest PLC (the Company) for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 26 March 2012.

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 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. EnQuest reported a profit for the financial year ended 31 December 2011 of US\$436,000 (2010: loss US\$8,371,000). There were no other recognised gains or losses in the period (2010: nil).

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 Company to continue as a going concern.

Investments

Investments are stated at cost less any provision for impairment.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax in the future.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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 and loss account, 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 total recognised gains and losses. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in shareholders' equity are transferred to the profit and loss account in the period when the hedged item will affect the profit or loss. When the hedged item no longer meets the requirements for hedge accounting, expires or is sold, any accumulated gain or loss recognised in shareholders' equity is transferred to the profit and loss account when the forecast transaction which was the subject of the hedge occurs.

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 and loss account.

Employee benefit trust

EnQuest 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 profit and loss account 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.



2. Summary of significant accounting policies (continued)

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 (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 and loss account 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 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 profit and loss account.

The Company operates a number of share award schemes on behalf of the employees of the Group which are described in detail within [note 20](#) of the Group financial statements.

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

	Unlisted subsidiary undertakings US\$'000	Other listed investments US\$'000	Total US\$'000
Cost			
At 1 January 2011	1,197,602	-	1,197,602
Additions	4,881	808	5,689
At 31 December 2011	1,202,483	808	1,203,291
Net book value			
At 31 December 2011	1,202,483	808	1,203,291
At 31 December 2010	1,197,602	-	1,197,602

Details of the Company's principal subsidiaries at 31 December 2011 are provided in [note 29](#) of the Group financial statements.

The interest in other listed investments at the end of the year is part of the Group's 16% investment in the ordinary share capital of Ascent Resources plc, which is incorporated in Great Britain and registered in England and Wales.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

4. Cash and cash equivalents

	2011 US\$'000	2010 US\$'000
Cash at bank and in hand	155	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

	2011 US\$'000	2010 US\$'000
Deferred tax asset (note 6)	2,664	638

6. Deferred tax

The movements in the deferred tax asset recognised by the Company during the current year are as follows:

	Tax losses US\$'000	Other timing differences US\$'000	Total US\$'000
At 1 January 2011	638	-	638
Credit to profit and loss account	612	-	612
Credit to cash flow hedge reserve	-	1,414	1,414
At 31 December 2011	1,250	1,414	2,664

7. Derivative financial instruments

	2011 US\$'000	2010 US\$'000
Financial instruments at fair value through other comprehensive income		
<i>Creditors: amounts falling due within one year</i>		
Cash flow hedges:		
Forward foreign currency contracts	5,105	-
<i>Creditors: amounts falling due after more than one year</i>		
Cash flow hedges:		
Forward foreign currency contracts	335	-
Financial instruments at fair value through profit or loss		
<i>Assets due within one year</i>		
Derivatives not designated as hedges:		
Commodity forward contracts	2,510	-
<i>Creditors: amounts falling due within one year</i>		
Derivatives not designated as hedges:		
Commodity forward contracts	363	-
Total assets due within one year	2,510	-
Total assets	2,510	-
Total creditors: amounts falling due within one year	5,468	-
Total creditors: amounts falling due after more than one year	335	-
Total liabilities	5,803	-

Full details of the Group's financial risk management objectives and procedures can be found in [note 27](#) of the Group financial statements. As the holding company for the Group, the Company faces similar risks over foreign currency and changes in oil prices.

The Company has taken advantage of the exemption under FRS 29 for parent company accounts. The disclosures are included within the Group's financial statements.



7. Derivative financial instruments (continued)

During the fourth quarter of 2010, the Company had entered into four zero premium oil price collars on behalf of its subsidiaries partially to hedge its exposure to fluctuations in oil prices in 2011. On maturity of the hedges the associated loss was recharged to EnQuest Heather Limited, EnQuest Thistle Limited and EnQuest Dons Limited.

In November 2011, the Company entered into five separate put and call options on behalf of its subsidiaries; EnQuest Heather Limited, EnQuest Thistle Limited, EnQuest Dons Limited and Stratic Energy (UK) Limited; in order to hedge the changes in future cash flows from the sale of Brent oil production in 2012. These instruments were deemed to be ineffective and are therefore designated as at fair value through profit and loss (FVTPL). Gains of US\$2,147,000 (2010: nil) were taken into profit and loss during the year.

During the year ended 31 December 2011, the Company had entered into nine forward currency contracts on behalf of its subsidiaries; EnQuest Heather Limited, EnQuest Thistle Limited and EnQuest Dons Limited; of which seven mature in 2012 and 2013 to partially hedge the Group's exposure to fluctuations in foreign currencies, namely Sterling and Euro. These contracts qualify for hedge accounting and have been disclosed within [note 22](#) of the Group financial statements. At the balance sheet date the fair value of these derivatives was a liability of US\$5,440,000 (2010: nil). There was no impact in profit or loss during the year in respect of these contracts. An unrealised loss of US\$4,026,000 has been taken to equity during the year net of deferred tax of US\$1,414,000.

8. Issued share capital

Allotted, called up and fully paid	2011 US\$'000	2010 US\$'000
802,660,757 (2010: 799,462,905) Ordinary shares of £0.05 each	61,249	60,990

On 14 April 2011, 3,197,852 (7 April 2010: 6,962,020) Ordinary shares of £0.05 each were issued at par and allotted to the Company's Employee Benefit Trust to satisfy awards made under the Company's share-based incentive schemes.

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 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.

9. Reserves

	Share premium US\$'000	Merger reserve US\$'000	Cash flow hedge reserve US\$'000	Share-based payments reserve US\$'000	Retained (losses) US\$'000	Total US\$'000
At 1 January 2011	52,184	1,081,890	-	2,540	(8,371)	1,128,243
Loss recognised on cash flow hedges	-	-	(4,026)	-	-	(4,026)
Issue of shares to Employee Benefit Trust	-	-	-	(259)	-	(259)
Share-based payments charge	-	-	-	4,881	-	4,881
Profit for the year	-	-	-	-	436	436
Shares purchased on behalf of Employee Benefit Trust	-	-	-	(13,123)	-	(13,123)
At 31 December 2011	52,184	1,081,890	(4,026)	(5,961)	(7,935)	1,116,152

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 the shares issued.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 DECEMBER 2011

9. Reserves (continued)

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative portion of gains or losses on hedging instruments deemed effective in cash flow hedges.

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 20](#) of the Group financial statements.

10. Transactions with directors

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

11. Related party transactions

The Company has taken advantage of the exemption in FRS 8 not to disclose transactions with its wholly owned subsidiaries. There were no other related party transactions during the year (2010: nil).

12. Auditors' remuneration

The Company paid US\$9,600 (2010: US\$9,600) to its auditors in respect of the audit of the financial statements of the Company.

13. Post balance sheet events

Refer to [note 28](#) of the Group financial statements.



COMPANY INFORMATION

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

Registrar

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Swedish Registrar

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SVERIGE

Financial Calendar

30 May 2012	2012 Annual General Meeting
August 2012	2012 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.



NOTES







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