



ENQUEST PLC, 21 March 2017. Results for the year ended 31 December 2016*.

**Kraken on track and 2017 guidance reiterated
Magnus/SVT acquisition progressing to plan**

2016 results highlights

- Production averaged 39,751 Boepd in 2016, up 8.7% on 2015
- 2016 unit operating costs of \$24.6/bbl compared to \$29.7/bbl in 2015
- 2016 cash capex of \$609.2 million compared to \$751.1 million in 2015
- Revenue of \$849.6 million and EBITDA** of \$477.1 million, reflecting EnQuest's strong operational performance and hedging activities
- Cash generated from operations of \$408.3 million, up from \$221.7 million in 2015
- Net 2P reserves of 215 MMboe at the end of 2016, 5.9% up on the 203 MMboe at the end of 2015
- Comprehensive financial restructuring significantly improved EnQuest's liquidity position
- Net debt at the year end, was \$1,796.5 million, compared to \$1,548.0 million at the end of 2015

2017 update and outlook

- The Kraken development continues under budget and on track for first oil in Q2 2017
- EnQuest's confirms 2017 average production guidance, in the range of 45,000 Boepd to 51,000 Boepd for the full year – dependent on the timing of Kraken first oil
- EnQuest also remains on course to reduce average unit opex further in 2017 to be within the range of \$21/bbl to 25/bbl including Kraken production, driven by further cost reductions across the supply chain. Cash capex is set to be in the range \$375 million to \$425 million in 2017, the majority of which is being invested in the Kraken development
- Hedging of c.6 million barrels for 2017, at an average of c.\$51/bbl
- Total debt facilities of c.\$2.1 billion remain in place
- The proposed EnQuest acquisition of interests in the Magnus oil field and the Sullom Voe terminal was announced on 24 January. Transition activities have begun and are ongoing; the process is expected to take 6-12 months, with no cash outlay for EnQuest

* Unless otherwise stated, all figures are on a business performance basis and are in US dollars.

	2016	2015	Change %
Production (Boepd)	39,751	36,567	8.7
Revenue and other operating income (\$m)***	849.6	906.6	(6.3)
Realised oil price (\$/bbl)***	63.8	72.0	(11.4)
Gross profit (\$m)	196.1	173.2	13.2
Profit before tax & net finance costs (\$m)	237.1	173.9	36.3
EBITDA ** (\$m)	477.1	474.2	0.6
Cash generated from operations (\$m)	408.3	221.7	-
Reported basic earnings per share (cents)	22.7	(98.0)	-
Cash capex**** (\$m)	609.2	751.1	(18.9)
	End 2016	End 2015	
Net (debt)/cash ***** (\$m)	(1,796.5)	(1,548.0)	16.1

EBITDA is calculated on a business performance basis, and is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements and the realised gains/loss on foreign currency derivatives related to capital expenditure. The prior year EBITDA has been restated on a comparable basis by adding back realised losses on foreign currency derivatives related to capital expenditure of \$9.4 million. * Including revenue of \$255.8 million (2015: \$261.2 million) associated with EnQuest's oil price hedges. ****Cash capex is stated net of proceeds received from the disposal of tangible and intangible fixed assets of \$1.5 million (2015: \$75.5 million) ***** Net (debt)/cash represents cash and cash equivalents less borrowings, stated excluding accrued interest and the net-off of unamortised fees.

EnQuest CEO Amjad Bseisu said:

"EnQuest further streamlined its operations in 2016 and delivered cash capital expenditure at \$609 million and unit opex at \$24.6/bbl, both well down on the previous year. Operationally EnQuest worked at high levels of production efficiency and safely delivered production averaging 39,751 Boepd, our highest annual production figure, supporting our financial objectives.

2016 saw the successful restructuring of our balance sheet, designed to strengthen EnQuest's liquidity position, to reduce the level of its cash debt service obligations and to enable it to bring the Kraken development onstream.

In early 2017, EnQuest securely moored the Kraken FPSO on station in the North Sea, where commissioning work continues on the vessel and the subsea infrastructure; preparations for the handover to operations are ongoing. The project remains below budget and on track to deliver first oil in Q2 2017.

In early 2017, EnQuest and BP announced EnQuest's proposed acquisition of interests in the Magnus oil field and the Sullom Voe oil terminal. The innovative structure of the acquisition recognises EnQuest's differential strength in managing maturing assets and infrastructure, whilst generating significant potential for future growth.

EnQuest's combination of integrated technical capabilities and high levels of production efficiency and cost control ideally positions us to create value from assets such as Magnus and from the substantial potential in our existing asset portfolio, with 215 MMboe of net 2P reserves at the end of 2016. Our journey to optimise and increase production and reduce costs continues, with average 2017 production anticipated to be between 45,000 Boepd and 51,000 Boepd. Following delivery of Kraken, EnQuest will begin moving from a period of heavy capital investment into one focused on cash generation and deleveraging the balance sheet."

2016 performance summary

In 2016, operations and production were generally strong across the portfolio, leading to an 8.7% year on year net increase to 2016 average production of 39,751 Boepd. The Heather/Broom performance was one of the highlights of the year, with production of 5,948 Boepd, up 28.1% on the prior year. This was due to increased water injection reliability and the continuing benefits of the 2015 wells workover programme. Production from PM8/Seligi was another highlight, with successful work on wells and topsides resulting in production in early December of over 20,000 Boepd gross, the highest levels since EnQuest assumed operatorship. Productivity from Alma/Galia was negatively impacted by well performance including reliability issues with ESPs.

Full year final reported cash capex of \$609.2 million was better than the bottom of the latest indicated range of \$620 million to \$670 million, down from the \$700 million to \$750 million range guided to in March 2016, following capex savings on the Kraken development and phasing of milestone payments. This net reduction in capex was achieved despite increasing the 2016 programme to include the successful drilling of the Eagle discovery.

Full year final reported 2016 unit opex of \$24.6/bbl was slightly ahead of guidance of \$25/bbl to \$27/bbl. Unit opex has been reduced across the board. Heather/Broom was a particular success, driven partly by its increased production, but also by the ongoing cost reduction programme, as Heather/Broom reduced its unit operating costs, to levels which generated positive cash margins.

Reserves

Audited net 2P reserves at the end of 2016 were 215 MMboe, 5.9% up on the 203 MMboe at the end of 2015; representing a reserve life of 17 years. Factors leading to this net impact included a 14 MMboe increase in relation to the acquisition of an additional 10.5% interest in Kraken and an additional 15.2% in West Don, as countered by the 2016 production of 13 MMboe, also upward revisions to reserve estimates at the Thistle and Heather hubs, both due to improved predicted performance of infill wells based on reservoir simulation model outputs and decreases at Alma/Galia due to the levels of well performance.

2017 year to date and additional outlook details

In 2017, the focus is on delivering first oil from Kraken on schedule. To which end, the majority of the 2017 cash capex programme of between \$375 million and \$425 million will be invested in Kraken, including the Kraken drilling programme which will follow after first oil. EnQuest is on course to further reduce average unit opex, in 2017 in the range of \$21/bbl to 25/bbl; this includes the beneficial impact of production from Kraken. EnQuest continues to seek further cost reductions across the supply chain.

Production performance remains on track to achieve the average production guidance for the full year 2017 of between 45,000 Boepd and 51,000 Boepd.

General and administration costs for 2017 are expected to be in line with those incurred in 2016.

The 2017 depletion and depreciation charge is anticipated to be around \$20/bbl, depending on timing of Kraken first oil.

In the current oil price environment and with investment in the North Sea, EnQuest does not expect a material cash outflow for UK corporation tax on operational activities.

2017 outlook by individual production and development asset

Including performance updates re early 2017

North Sea

Kraken

The Kraken FPSO arrived in the North Sea in early January, having completed its journey from Singapore within the scheduled number of days. The vessel was berthed in Rotterdam for post voyage inspection and final preparations prior to sailing. The FPSO then sailed to the Kraken field once good weather conditions were anticipated for the hook up of the STP buoy mooring system to the FPSO. This was completed and a full rotation test performed so that by mid-February the vessel was on station and securely moored. The risers and umbilicals have now been successfully pulled in. Work is continuing in the turret area, as is topsides commissioning work. Following completion of the turret area work, subsea commissioning will commence. Handover of FPSO systems from commissioning to operations continues.

All drilling is now complete on DC-1 and DC-2 and the rig next moves to DC-3. At start up 13 wells will be available comprising 7 producers and 6 injectors. As with all developments of this scale, wells will be brought onstream in a phased manner in line with good reservoir management practices. Drilling performance to date has significantly de-risked delivery of the project to and beyond first oil.

The project continues to be under budget and on schedule for first oil in Q2 2017.

Thistle/Deveron

On both Thistle and Heather there is a programme to abandon redundant well stock, co-funded by EnQuest's partners. This will both reduce risk and present opportunities in the future to drill further infill wells when circumstances allow. The related Thistle programme of partial well abandonments will continue throughout 2017, starting with the abandonment of well A05/25, which commenced in January 2017. The phased approach to decommissioning utilises EnQuest's ability to execute low cost well work for the benefit of all Thistle stakeholders and is an important new component of Thistle's life extension strategy.

The Brent Pipeline System ('BPS') operator is planning a further shutdown in 2017, currently expected to result in a Thistle shutdown in Q3.

The Don fields

The planned BPS shutdown will impact the Dons similarly to Thistle, with a Don fields shutdown expected in Q3.

Heather/Broom

Following on from the Thistle well programme, the drill crew will move to Heather in the second half of 2017 to start a similar programme of well decommissioning. Removing legacy wells will safeguard current sustained high water injection efficiency. EnQuest is pleased to have gained decommissioning partner funding for this important life extension work.

A Heather hub shutdown for routine inspection and maintenance is expected Q3 2017.

Greater Kittiwake Area ('GKA')

The work programme in GKA for 2017 will be focused on optimising production across the assets and concluding the minimal scope of work remaining from the Scolty/Crathes project: the replacement of the associated gas compressor ('A-Gas'). Grouse would also be offline during the gas system shutdown. No drilling is planned on GKA in 2017. Evaluation of the potential from the Eagle discovery is ongoing.

A chemical treatment (scale squeeze) is planned in the summer of 2017 for the Mallard well to coincide with the planned three week GKA shutdown in Q3 2017.

Scolty/Crathes

The 2017 programme for Scolty and Crathes will be focused on optimising production across the two fields, as part of this process the Scolty well is currently shut in. Production will be affected by the same outages as are planned for GKA in 2017.

Alma/Galia

In 2017, the final phase of the power optimisation and the produced and sea water injection optimisation projects will be completed on the EnQuest Producer. Discussions are ongoing with the ESP supplier, on rectification plans to address the pump reliability issues. An unscheduled shutdown took place in January/February as a result of damage from a severe winter storm; Alma/Galia performed well after being brought back onstream. A two week maintenance shutdown is scheduled for Q2 2017.

Alba (non-operated)

The Alba oil field is operated by Chevron.

A maintenance shutdown is planned in Q3.

Malaysia

PM8/Seligi

EnQuest will continue to enhance production by investing in low cost well interventions and facility projects to improve production efficiency, including gas compression control system upgrades to improve reliability. In addition, robust maintenance and integrity inspection campaigns of platform structures, topsides, and subsea pipelines will continue to ensure safe operations. This includes a planned annual maintenance shutdown in Q3 2017.

Longer term, EnQuest will extend field life through further investment in idle well restoration, facility improvements and upgrades and technical studies supporting development drilling and secondary recovery projects to increase ultimate recovery. During 2017, the first new drilling projects will be defined for execution in 2018, and significant progress will be made on rebuilding of static and dynamic reservoir simulation models in support of longer term field redevelopment.

Tanjong Baram

Focus remains on steady, safe and low cost operations in 2017. In addition, three options aimed at reviving well A1 are under technical review; the review will be completed in H1 2017.

Summary financial review of 2016

Total revenue for 2016 was \$849.6 million compared to \$906.6 million for 2015. On average, oil prices in 2016 were lower than in 2015. The Group's blended average realised price per barrel of oil sold excluding hedging was \$44.3 for the year ended 31 December 2016, compared to \$50.9 during 2015. Revenue is predominantly derived from crude oil sales and for the year ended 31 December 2016 crude oil sales totalled \$577.8 million, compared with \$634.3 million in 2015. The decrease in revenue was due to the lower oil price, offset partially by the higher production.

The Group's commodity hedges and other oil derivatives generated \$255.8 million of realised income (2015: \$261.2 million). This includes \$31.2 million of non-cash amortisation of option premiums and \$2.5 million of hedge accounting gains deferred from 2015 (2015: \$111.6 million of non-cash amortisation of option premiums). The Group's average realised oil price after hedging was \$63.8 per barrel in 2016 compared with \$72.0 per barrel in 2015.

EBITDA for the year ended 31 December 2016 was \$477.1 million compared with \$474.2 million in 2015. Increased production and lower operating costs have driven a higher EBITDA, although this was partially offset by the impact of lower oil prices in 2016, as partially mitigated through the contribution of the \$255.8 million from the commodity hedge portfolio.

Business performance cost of sales was \$653.5 million for the year ended 31 December 2016 compared with \$733.4 million for 2015. Although production has increased year-on-year, operating costs decreased by \$23.9 million, reflecting EnQuest's ongoing cost saving initiatives and the benefit of a weaker sterling exchange rate, partially offset by an increase in realised losses on foreign currency derivatives of \$25.8 million. On a per barrel basis, the Group's average operating cost per barrel has decreased by 17% to \$24.6 per barrel, reflecting the cost reductions and foreign exchange benefits above, together with the impact of 9% higher production.

Cost of sales include realised losses on foreign currency derivatives related to capital expenditure of \$47.3 million, reflecting the significant devaluation of sterling against the US dollar since June 2016 (2015: loss of \$9.4 million).

The Group's overlift position decreased significantly during the year, primarily reflecting the unwind of the balances that had accrued at 31 December 2015 on Thistle and GKA. The impact of this movement on the change in lifting position recognised in cost of sales was offset by the impact of higher oil prices on the valuation of the position at 31 December 2016 compared to 31 December 2015, resulting in an overall \$2.8 million expense in 2016 (2015: \$28.5 million).

Profit after tax and net finance costs was \$121.5 million, reflecting a tax credit for the year of \$5.2 million and net finance costs of \$120.8 million. The tax credit of \$5.2 million (2015: \$129.3 million tax credit), excluding exceptional items, is due primarily due to Ring Fence Expenditure Supplement on UK activities and the tax effect on foreign exchange gains. Net finance costs of \$120.8 million include \$110.5 million of bond and loan interest payable (2015: \$80.2 million), \$14.2 million unwinding of discount on provisions and liabilities (2015: \$22.3 million), \$36.5 million relating to the amortisation of premium on options designated as hedges of production (2015: \$70.0 million), \$5.9 million amortisation of arrangement fees for the bank facilities and bonds (2015: \$7.3 million), other financial expenses of \$10.5 million (2015: \$11.0 million), primarily commitment and letter of credit fees and finance income of \$1.4 million (2015: \$1.0 million).

Net debt at 31 December 2016 amounted to \$1,796.5 million compared with net debt of \$1,548.0 million at 31 December 2015.

On 21 November 2016, the Company concluded a comprehensive financial restructuring comprising: amendments to the credit facility, high yield bond and retail bond; renewal of surety bond facilities; and a placing and open offer (the 'Restructuring'). The Restructuring significantly improved EnQuest's liquidity position and included the following key features:

- the placing and open offer resulted in the issue of, in aggregate, 356,738,114 new ordinary shares at an issue price of 23.0 pence per share and generated gross cash proceeds of \$101.6 million;
- \$176.3 million available for drawdown under the credit facility, as at the restructuring date, with maturity extended to October 2021, the amortisation profile amended and certain financial covenants relaxed;
- accrued, unpaid interest on the high yield bond as at the restructuring date of \$27.5 million was capitalised and added to the principal amount of the bond;
- future interest payments due on the both retail and high yield bonds will only be payable in cash where the average prevailing oil price (dated Brent future, as published by Platts) for the six month period immediately preceding the day which is one month prior to the relevant interest payment date being at least \$65 per barrel; otherwise interest payable is capitalised to principal, repayable at maturity; and
- option exercisable by the Company to extend the maturity date of the high yield bond and retail bond from April 2022 to April 2023 with a further automatic extension of the maturity date to October 2023 if the credit facility is not fully repaid or refinanced by October 2020.

The Group has remained in compliance with financial covenants under its debt facilities throughout the period and managing ongoing compliance remains a priority.

The Group had \$174.6 million of cash and cash equivalents at 31 December 2016 and \$1,796.5 million of net debt (2015: \$269.0 million and \$1,548.0 million, respectively). Net debt comprises the following borrowings:

- \$191.3 million principal outstanding on the £155 million retail bond;
- \$677.5 million principal outstanding on the high yield bond, including capitalised interest of \$27.5 million pursuant to the Restructuring;
- \$1,037.5 million carrying value of credit facility, comprising amounts drawn down of \$1,037.3 and interest of \$0.2 million capitalised as an amount payable in kind ('PIK amount');
- \$40.0 million loan facility drawn down from a trade creditor during the year; and
- \$24.9 million principal outstanding on the Tanjong Baram project finance facility.

Exceptional items include a net reversal of impairments of \$147.9 million, primarily due to higher near term oil price assumptions and the beneficial impact of a deterioration in the GBP/USD exchange rate on the underlying costs of the assets.

UK corporate tax losses at the end of the year increased to approximately \$2,893.7 million.

Production statistics

Production on a working interest basis	Net daily average	Net daily average
	1 Jan' 2016 to 31 Dec' 2016	1 Jan' 2015 to 31 Dec' 2015
	(Boepd)	(Boepd)
Thistle/Deveron	7,533	8,930
Dons/Ythan	5,404	7,690
Heather/Broom	5,948	4,643
Kittiwake	2,988	3,981
Scolty/Crathes	719 ¹	-
Alma/Galia	6,740	1,083 ²
Alba	1,271	1,178
Total UKCS	30,603	27,505
PM8/Seligi	7,960	8,689
Tanjong Baram	1,188	373 ³
Total Malaysia	9,148	9,062
Total EnQuest	39,751	36,567

¹ Net production since first oil on 21 November 2016, averaged over the 12 months to the end of December 2016; equates to an average of 6,422 Boepd from first oil to the end of 2016.

² Net production since first oil on 27 October 2015, averaged over the 12 months to the end of December 2015

³ Net production since first production in June 2015, averaged over the 12 months to end of December 2015

Ends

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Presentation to Analysts and Investors

A presentation to analysts and investors will be held at 09:30 today – London time. The presentation and Q&A will also be accessible via an audio webcast – available from the investor relations section of the EnQuest website at www.enquest.com. A conference call facility will also be available at 09:30 on the following numbers:

Conference call details:

UK: +44(0)20 3427 1909

USA: +1212 444 0412

Confirmation Code: EnQuest

Notes to editors

EnQuest is one of the largest UK independent producers in the UK North Sea. EnQuest PLC trades on both the London Stock Exchange and the NASDAQ OMX Stockholm. Its operated assets include Thistle/Deveron, Heather/ Broom, the Dons area, the Greater Kittiwake Area, Scolty/Crathes and Alma/Galia, also the Kraken development; EnQuest also has an interest in the non-operated Alba producing oil field. At the end of December 2016, EnQuest had interests in 25 UK production licences, covering 35 blocks or part blocks and was the operator of 23 of these licences.

EnQuest believes that the UKCS represents a significant hydrocarbon basin, which continues to benefit from an extensive installed infrastructure base and skilled labour. EnQuest believes that its assets offer material organic growth opportunities, driven by exploitation of current infrastructure on the UKCS and the development of low risk near field opportunities.

EnQuest is replicating its model in the UKCS by targeting previously underdeveloped assets in a small number of other maturing regions; complementing its operations and utilising its deep skills in the UK North Sea. In which context, EnQuest has interests in Malaysia where its operated assets include the PM8/Seligi Production Sharing Contract and the Tanjong Baram Risk Services Contract.

Forward looking statements: This announcement may contain certain forward-looking statements with respect to EnQuest's expectation and plans, strategy, management's objectives, future performance, production, reserves, 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 presentation should be construed as a profit forecast. Past share performance cannot be relied on as a guide to future performance.

Glossary

BPS Brent Pipeline System
DC Drill centre
ESP Electrical submersible pump
FPSO Floating production, storage and offloading vessel
GKA Greater Kittiwake Area
SVT Sullom Voe Terminal

CHAIRMAN'S STATEMENT

EnQuest in 2016

When I became Chairman of EnQuest in September 2016, I said that EnQuest's priority was to deliver a business and a balance sheet which were robust in the prevailing oil price environment. In November 2016, EnQuest was pleased to announce the successful completion of a financial restructuring designed to deliver such a robust balance sheet. This was a comprehensive package of measures which, combined with an extensive and ongoing cost saving programme, put EnQuest's business on a strong footing, well placed to deliver the Kraken development and to deliver value to shareholders in the medium term.

I also said that I was pleased to become Chairman of a company with an asset base which has material growth potential and with such a strong team of people. In 2016, our people again performed well in a challenging environment, with EnQuest delivering production up 9% on 2015, whilst at the same time significantly further reducing costs, with unit operating costs down 17% on the prior year.

With the combined effect of increased production and acquisition related increases, EnQuest ended 2016 with a net 2P reserve base of 215 MMboe, ahead of the 203 MMboe position at the end of 2015. This represents an average of 15% growth per annum since EnQuest's formation seven years ago and a current reserve life of 17 years.

Industry context

EnQuest's low cost capabilities have always been central to its business model. The macro environment since 2014 has acted as a catalyst for the North Sea oil and gas industry, galvanising companies into new, innovative and collaborative ways of operating. EnQuest has been at the forefront of these advances and initiatives and these more cost efficient operating methodologies are being institutionalised. These are lasting structural changes and are essential to the optimisation of hydrocarbon extraction from the North Sea and beyond.

EnQuest supports the UK Government's strategy for 'Maximising Economic Recovery ('MER') for the UK and works closely with the Oil & Gas Authority ('OGA') to achieve this. In Q4 2016, EnQuest brought the Scolty/Crathes development onstream; the only offshore oil Field Development Plan to have been approved in the UKCS in 2015. Realisation of the potential from these smaller fields was enabled by cost efficiency, technology application and solid execution. EnQuest looks forward to adding further value to these MER (UK) initiatives through applying its differential capabilities to optimise the recovery of oil from the UKCS.

EnQuest welcomes the current programme to simplify and make more competitive the UK upstream tax regime, including reductions in the headline level of oil and gas tax rate, as set out in HMT's 'Driving Investment' document. These are essential to creating certainty and to driving the still substantial investment needed in the UKCS. EnQuest believes that there is no longer a case for additional petroleum tax levies, such as the supplementary charge on UK upstream oil and gas activities. Such taxes mitigate against the realisation of MER (UK).

Reasons for the 2016 financial restructuring

The decline in oil prices since 2014 and the cost of the Alma/Galia development project have had a significant negative impact on the Group's revenues, liquidity and available cash resources.

In response to the decline in oil prices, the Group set a number of strategic priorities, including delivering on execution, streamlining operations and strengthening the Group's balance sheet. The Group focused on delivering a strong operational performance and also took a number of additional measures to address the impact of the decline in oil prices and the Group's cash flow constraints. These included; negotiating the relaxation of certain financial covenants in the revolving credit facility ('RCF') and the retail notes; engaging in commodity hedging activities; divesting non-core international assets; reducing operating costs; reducing capital expenditure on the Kraken development; improving future cash flows through the development of Kraken and Scolty/Crathes; and deferring certain trade creditor obligations.

These measures were significant steps in maintaining the Group's viability in the prevailing environment. However, a longer term solution was needed to strengthen the Group's liquidity position, to reduce the burden of the Group's cash debt service obligations and to enable the Group to continue pursuing its business strategy, particularly, bringing Kraken to first oil.

This led to the financial restructuring in Q4 2016, the key features of which were amendments to the RCF and to both the high yield and retail bonds, the renewal of surety bond facilities and a placing and open offer, to raise £82 million. On 21 November, the Board was pleased to announce that the restructuring had been successfully completed and was effective.

The EnQuest Board

On 8 September 2016, EnQuest announced that after over six years in the role, Dr James ('Jim') Buckee was retiring as Chairman of the Company and that I was to become EnQuest's new Chairman, both with immediate effect. The Board and I reiterate our thanks to Jim for his important contribution to the Company since its inception. During his tenure, EnQuest grew reserves from 80.5 MMboe at the start, to 203 MMboe at the end of 2015. For my part, I was

indeed pleased to become Chairman at such an important time in the Company's development and I was warmly welcomed into my new role by EnQuest's Chief Executive, Amjad Bseisu, and the rest of the Board.

On 15 December 2016, EnQuest announced the appointment of Carl Hughes as a Non-Executive Director and that Neil McCulloch was being appointed as Chief Operating Officer ('COO') and was to join the Board as an Executive Director at the 2017 AGM. The appointment of Carl Hughes as a Non-Executive Director of the EnQuest Board was effective on 1 January 2017. Carl was previously a vice chairman and senior audit partner at Deloitte, based in London; he was also global leader of Deloitte's energy and resources practice. Prior to his promotion to COO, Neil was EnQuest's President, North Sea. Neil's previous responsibilities for EnQuest's North Sea operations expanded to include production from Kraken and EnQuest's operations in Malaysia. I am delighted to welcome Carl to EnQuest and I look forward to working with him as a member of the Board. I am also pleased to congratulate Neil, both on his appointment to the role of COO and on being invited to join the Board.

In March 2016, as part of the planned rotation of the Board, Clare Spottiswoode retired from the Board. I would like to repeat the Board's gratitude to Clare for her valuable contributions during her tenure with EnQuest. In conjunction with an independent search firm, the process of building on our rotation plans continues.

Our people

The Directors assess and evolve EnQuest's strategy as appropriate, taking key decisions on its implementation.

In 2016, the strategic focus was again on positioning the business for the prevailing oil price environment, whilst also ensuring it continued to achieve its operational targets. Delivery against these objectives has only been possible due to EnQuest's people. The Board and I would like to express our gratitude to everyone at EnQuest for having worked so diligently and innovatively to address the challenges presented by the oil price environment.

In particular, we are grateful to the EnQuest leadership team for their energy and dedication in navigating into place the complicated restructuring and capital raise. We are pleased that these arrangements have put EnQuest in the position where it can continue doing what it is known for and what it does so well, creating value from opportunities in maturing oil fields.

Following the capital restructuring, the Board also worked with the management team on the proposed EnQuest acquisition of interests in the Magnus oil field and the Sullom Voe Terminal. Again, this transaction is a significant demonstration of the stamina and ingenuity of our people – your Company is led by a high quality team.

Governance

The Board believes that the manner in which it conducts its business is important and it is committed to working to the highest standards of corporate governance for the benefit of all of its stakeholders. Ensuring that the Board works effectively remains a key areas of focus. EnQuest's values underpin a working environment where people are safe, creative and passionate, with a relentless focus on results.

2016 saw the inception of a new Committee of the Board, the Risk Committee. The primary purpose of the Risk Committee is to provide a forum for in-depth examination of non-financial risk areas (financial risk being within the scope of the Audit Committee). Over the course of the year, the Committee has reviewed a number of areas such as asset integrity, subsurface risks and morale.

EnQuest's corporate responsibility is focused on five main areas. These are, first and foremost, Health and Safety, People, Environment, Business Conduct and Community. The Board has approved EnQuest's overall approach to Corporate Responsibility and specific developments and updates in each are brought to the Board's attention when appropriate. The Board receives regular information on EnQuest's performance in these areas, and specifically monitors health and safety and environmental reporting at each Board meeting. EnQuest's HSE&A Policy is reviewed by the Board annually and all incidents, forward looking indicators and significant HSE&A programmes are discussed by the Board.

Culture is an area of increased focus given the impacts of the current oil price environment and the growth in operations, as both the Alma/Galia and Kraken projects add scale to EnQuest's business. Furthermore, EnQuest is now working to complete its acquisition of operating interests in the Magnus field and the Sullom Voe Terminal, transitioning to take over operatorship and absorbing significant additional numbers of personnel into the business. It is therefore important to set the right tone and to foster among the workforce high morale, common values and a focus on efficient and ethical achievement. Furthermore, EnQuest took considerable care to ensure that the processes adopted during a rationalisation of the workforce in Aberdeen were, and were seen to be, fair and understanding.

Dividend

The Company has not declared or paid any dividends since incorporation and does not plan to pay dividends in the near future. Any future payment of dividends will depend on the earnings and financial condition of the Company and on such other factors as the Board of Directors of the Company considers appropriate at the time.

A return to sustainable growth

In January 2017, with a view to continuing to build its growth options, EnQuest announced the acquisition of interests in the Magnus oil field and the Sullom Voe Terminal ('SVT'), for both of which EnQuest is set to become operator,

subject to the necessary approvals. The acquisition has an innovative structure, recognising EnQuest's current balance sheet constraints. The vendor, BP, endorsed EnQuest's capabilities, highlighting that EnQuest is a natural operator of mature assets in the North Sea, well placed to improve production and to prolong the life of such assets in the UKCS.

With Magnus and SVT being added to the portfolio and with the 2016 restructuring implemented, EnQuest is positioned with the right assets and the right team for the next phase of its growth. EnQuest has the high efficiency and low cost capabilities required for this environment; it has restructured its operations and its ways of doing business such that even modest increases in oil prices can have a significant positive impact on future cash flows and growth.

In 2017, EnQuest's top operational priority is safely bringing the Kraken development onstream on schedule. As EnQuest begins to move beyond an extended period of heavy capital investment, its strategic priorities continue to be to increase production by delivering on operational and development execution, whilst also continuing to reduce the operating cost base. This combination of financial and operational discipline will result in increasing cash flows and in the deleveraging of the balance sheet, which continue to be the high priorities in the near term.

CHIEF EXECUTIVE'S REPORT

EnQuest's performance, business model and strategy in 2016

2016 was another challenging year for EnQuest, with continuing pressure from the oil price environment. Accordingly, EnQuest has delivered further reductions in operating and capital expenditure and continued to streamline operations. EnQuest's low cost operating structure and low cost approach to operatorship are integral to its way of doing business, whilst always retaining safe operations as the number one priority. It was a year characterised by both operational and financial achievements, with the successful financial restructuring being essential for the strength of the balance sheet.

The average production of 39,751 Boepd in 2016 included good performances at Heather/Broom and at PM8/Seligi, and a promising start from Scolty/Crathes, following early delivery of first oil. A first full year of production from Alma/Galia increased UKCS production over the prior year, despite productivity from Alma/Galia being negatively impacted by well performance. Overall production was also affected by extended shutdowns. The Kraken development finished 2016 under budget and on course for first oil in Q2 2017, with the drilling programme ahead of schedule.

To help protect its capital investment programme, EnQuest had entered into a substantial hedging programme for 2016; this contributed \$255.8 million to EBITDA of \$477.1 million in 2016. Cost control and efficient management of operations drove further material cost reductions; average 2016 full year unit opex was \$24.6/bbl, compared to \$29.7/bbl in 2015 and \$42.1/bbl in 2014. 2016 cash capex was \$609.2 million, down 19% on 2015; this final 2016 capex total was well down on the original estimate of between \$700 million and \$750 million, reflecting ongoing reduction initiatives throughout the year, including deferral of payments for Kraken and Scolty/Crathes.

Even though EnQuest had been successful in making significant reductions to its cost base, the Company also needed to restructure its financial position. In October 2016, EnQuest announced proposed amendments to the revolving credit facility and to both the retail notes and the high yield notes, as well as a placing and open offer. In November 2016, EnQuest successfully completed the restructuring. This provided EnQuest with a stable and sustainable capital structure, reduced cash debt service obligations and enhanced liquidity. The revolving credit facility was restructured into a \$1,125 million term loan facility and a \$75 million revolving credit facility. The terms of the high yield bonds and retail bonds were amended, with extended maturities and interest to be paid in kind rather than in cash when oil prices are below \$65/bbl in the six month period prior to determination. The placing and open offer also raised gross aggregate proceeds of £82 million. The restructuring was key for EnQuest and significantly improved its liquidity position. EnQuest finished the year with net debt of \$1,796.5 million, as at 31 December 2016.

End 2016 net 2P reserves of 215 MMboe represented a 6% increase on the 203 MMboe at the end of 2015. This reflected the impact of EnQuest producing 13 MMboe of hydrocarbons in 2016 and the acquisition of an additional 10.5% interest in the Kraken development from First Oil at the start of 2016. There were also upward revisions to reserve estimates at the Thistle and Heather hubs, both due to improved predicted performance of infill wells based on reservoir simulation model outputs and decreases at Alma/Galia due to the levels of well performance. By the end of 2016, EnQuest had therefore converted into flowing barrels the equivalent 84% of the 81 MMboe of reserves with which it began its business with in 2010.

Health, Safety, Environment and Assurance ('HSE&A')

EnQuest maintained its commitment to the delivery of continual improvement in HSE&A performance in 2016, with excellent results in many areas, but with some areas requiring fresh actions to be undertaken.

EnQuest's Lost Time Injury ('LTI') performance remained strong: the Kittiwake, Northern Producer and EnQuest Producer assets in the North Sea all recorded an LTI free year. EnQuest's Malaysian operations recorded zero LTIs and were pleased to achieve a Total Recordable Incident Frequency ('TRIF') for the year which was better than targeted.

In the UK, a comprehensive HSE&A audit programme was completed, with findings being part of the 2017 continual improvement programme. This underlines EnQuest's focus on improvement through the detection and resolution of issues.

EnQuest's focus on HSE&A continues to be a priority.

North Sea

In 2016, EnQuest produced an average of 30,603 Boepd in the North Sea, an 11.3% increase on the previous year and a generally good performance with high levels of production efficiency. 2016 production benefitted from the drilling programme in H2 2015 and from the new Scolty/Crathes development, brought onstream ahead of schedule and under budget. Production was negatively impacted by third party shutdowns for maintenance, which were delayed and took longer than anticipated, also by the well performance issues at Alma/Galia, and reliability issues with its electrical submersible pumps ('ESP's). EnQuest monitors its projects to ensure that lessons learned from past projects, such as Alma/Galia, are used as inputs to the structuring of new ones; hence at sanction, most of the Kraken development was structured using lump-sum fixed price contracts, with remuneration for the vessel provider being determined by delivery and functionality key performance indicators.

Heather/Broom performance was one of the highlights of the year, with production of 5,948 Boepd, up 28.1% on the prior year. This was due to increased plant and water injection reliability and the continuing benefits of the 2015 wells workover programme. Driven partly by this increased production, but also by the ongoing cost reduction programme, Heather/Broom significantly reduced its unit operating costs.

Kraken

In 2016, the Kraken development progressed well, finishing the year ahead of budget and on schedule for first oil in Q2 2017. The conversion programme for the Kraken FPSO vessel continued and on 23 November, the FPSO left Singapore, en route to the North Sea. Drilling for the project was ahead of schedule on drill centres 2 and 3 ('DC-2' and 'DC-3'), following completion of well activities at drill centre 1 ('DC-1').

Earlier in the year, the subsea installation programme was completed, with all three drill centres fully connected to the submerged turret production ('STP') buoy for hook up to the FPSO and the last mooring pile and wire/chains installed.

The drilling programme made excellent progress in 2016, with the results from the producer and injector wells which were drilled and completed meeting pre-drill expectations. This good progress on drilling and also on the execution of the subsea programme were key factors in the \$375 million of additional Kraken gross project capex savings announced in 2016, reducing gross capex to c.\$2.5 billion.

Malaysia

Total production of 9,148 Boepd in Malaysia was slightly ahead of the prior year. Production of 7,960 Boepd from PM8/Seligi was slightly lower than the prior year's 8,689 Boepd, as a result of additional maintenance shutdown days in 2016, as well as reduced volumes of gas and condensate, which are ad hoc in their nature. Adjusting for these, underlying production at PM8/Seligi increased year on year, a substantial achievement for a mature field with wells which have natural decline rates. Especially in a year with no drilling, this is a testament to the success of the programme of well intervention and topsides work and high levels of production efficiency.

Financial performance KPIs

In 2016, EnQuest generated EBITDA of \$477.1 million compared with \$474.2 million in 2015; the negative impact of lower oil prices, being mitigated by hedging income of \$255.8 million and also by the significant action taken on costs.

Cost reduction measures led to EnQuest's average unit production and transportation cost being reduced again, down to \$24.6/bbl compared to \$29.7/bbl in 2015.

As at 31 December 2016, EnQuest had total net debt of \$1,796.5million.

2017 year to date

The Kraken FPSO arrived in the North Sea in early January, having completed its journey from Singapore within the scheduled number of days. The vessel was berthed in Rotterdam for post voyage inspection and final preparations prior to sailing. The FPSO then sailed to the Kraken field once good weather conditions were anticipated for the hook up of the STP buoy mooring system to the FPSO. This was completed and a full rotation test performed so that by mid-February the vessel was on station and securely moored. Work is continuing in the turret area, as is topsides commissioning work. Following completion of the turret area work subsea commissioning will commence. Handover of FPSO systems from commissioning to operations continues.

In January 2017, EnQuest was pleased to announce an agreement to acquire from BP an initial 25% interest in the Magnus oil field representing c.16 MMboe of additional net 2P reserves (gross reserves of 63 MMboe) with net production of c.4,200 Boepd in 2016 (gross production c.16,600 Boepd) as well as a 3.0% interest in the Sullom Voe oil terminal and supply facility ('SVT') and additional interests in related North Sea pipeline infrastructure. EnQuest already had interests of 3.0% in SVT. EnQuest is to become the operator of these assets. The transaction is subject to certain regulatory, government authority, counterparty and partner consents. The consideration for these interests is \$85 million, subject to working capital and other adjustments, which will be funded by deferred consideration payable from the cash flow of the assets being acquired. There are no requirements for cash from EnQuest, other than as generated from these assets.

The transaction capitalises on EnQuest's strengths in realising value from the management of maturing oil fields, as underlined by BP's confidence in proposing a change of operatorship to EnQuest. Magnus is a good quality reservoir; it has large volumes in place, with potential for infill drilling and for the revitalisation of wells, and scope for field life extension. Magnus is a producing asset that will materially increase EnQuest's reserve base. There is long term potential in Magnus and there would be a significant increase in cash flow at higher oil prices. Operationally and financially SVT is an important asset to EnQuest and taking over operatorship gives significant influence over its long term future. EnQuest is a natural strategic partner to BP for maturing assets and this innovative structure represents a natural evolution of EnQuest's business. EnQuest believes the innovative transaction net cash flow sharing structure can also become a template for transferring maturing assets from other majors to efficient operators such as EnQuest. Since this proposed acquisition was announced, the process of transitioning operatorship of these assets and securing the necessary regulatory, government, counterparty and partner consents has begun and continues.

2017 and beyond

In the continuing challenging oil price environment and building upon its successes in 2016, EnQuest is focused on its differential capabilities, low cost approach to operatorship, and financial discipline. The agreement with BP to acquire interests in, and operatorship of, Magnus and SVT is confirmation of the effectiveness of EnQuest's capabilities and its potential to add value for both EnQuest and for other business partners.

The Kraken project remains under budget and on track for delivery of first oil in Q2 2017.

EnQuest remains on course to achieve average production in the range of 45,000 Boepd to 51,000 Boepd for 2017. This is based on six operated producing hubs in the UK and the PM8/Seligi hub in Malaysia, with the level of 2017 production being dependent upon the timing of first oil from Kraken. A full year contribution from Kraken in 2018 should substantially increase production again that year.

Six million barrels have been hedged for 2017, at an average of c.\$51/bbl.

EnQuest remains on course to reduce average unit opex further in 2017, in the range of \$21/bbl to \$25/bbl including Kraken production. EnQuest continues to seek cost reductions across the supply chain.

Cash capital expenditure will reduce in 2017 and is expected to be in the range of \$375 million to \$425 million, the majority of which is being invested in the Kraken development.

Following delivery of first oil from Kraken, EnQuest looks forward to beginning the process of deleveraging the balance sheet to levels which are sustainable over the longer term. EnQuest's combination of integrated technical capabilities and high levels of production efficiency and cost control, ideally positions us to realise production potential from the assets we own.

OPERATING REVIEW

THE KRAKEN DEVELOPMENT

Kraken

Working interest at end 2016: 70.5%.*

Decommissioning liabilities: As per working interest

Floating Production Storage and Offloading unit with subsea wells

* With economic effect from 1 January 2016, EnQuest acquired an additional 10.5% interest in the Kraken development, from First Oil plc, bringing EnQuest's total interest to 70.5%.

2016

In 2016, the Kraken development progressed well, finishing the year ahead of budget and on schedule for first oil in Q2 2017.

In October 2016, following mechanical completion, shore based commissioning activities onboard the Kraken Floating Production, Storage and Offloading vessel ('FPSO') were completed at the quayside in Singapore. The vessel was then moved to deep water anchorage to undertake further commissioning work, following which, on 23 November, the FPSO sailed away en route to the North Sea. By this stage, drilling for the project was progressing to plan on drill centres 2 and 3 ('DC-2' and 'DC-3'), following completion of well activities at drill centre 1 ('DC-1').

Earlier in the year, the subsea installation programme had been completed, with all three drill centres fully connected to the submerged turret production ('STP') buoy for hook up to the FPSO and the last mooring pile and wire/chains installed.

The drilling programme made excellent progress in 2016 and this efficient execution was a key factor in the project capital expenditure reductions announced. The results from the producer and injector wells drilled and completed met pre-drill expectations. At year end, four producers and five water injectors had been completed since drilling commenced on the project.

2017 and beyond

The Kraken FPSO arrived in the North Sea in early January, having completed its journey from Singapore within the scheduled number of days. The vessel was berthed in Rotterdam for post voyage inspection and final preparations prior to sailing. The FPSO then sailed to the Kraken field once good weather conditions were anticipated for the hook up of the STP buoy mooring system to the FPSO. This was completed and a full rotation test performed so that by mid-February the vessel was on station and securely moored. The risers and umbilicals have now been successfully pulled in. Work is continuing in the turret area, as is topsides commissioning work. Following completion of the turret area work, subsea commissioning will commence. Handover of FPSO systems from commissioning to operations continues.

All drilling is now complete on DC-1 and DC-2 and the rig next moves to DC-3. At start up 13 wells will be available comprising 7 producers and 6 injectors. As with all developments of this scale, wells will be brought onstream in a phased manner in line with good reservoir management practices. Drilling performance to date has significantly de-risked delivery of the project to and beyond first oil.

The project continues to be under budget and on schedule for first oil in Q2 2017.

NORTH SEA OPERATIONS

In the North Sea in 2016, EnQuest focused on streamlining operations, delivering on execution and on strengthening the balance sheet. It was an intensely busy year and the team has much to be proud of. Successes included continued excellent drilling performance and high aggregate production efficiency. EnQuest portfolio in the North Sea is assessed to again have exceeded the Oil and Gas Authority's stated target of 80% production efficiency.

The strength of the drilling performance helped EnQuest to deliver first oil from Scolty/Crathes ahead of schedule and under budget and facilitated the inclusion in the programme of the successful drilling of the Eagle discovery.

Scolty/Crathes represented a particular achievement; this was the only offshore pure oil Field Development Plan ('FDP') approved in the UK North Sea in 2015 and first oil was achieved approximately a year after the FDP was approved and the project was sanctioned. With the support of EnQuest's partner, the collaboration of our own team with our contractors and sub-contractors, the timely delivery of this 'small pools' project was enabled through cost efficiency and the application of technology, sustaining the wider Greater Kittiwake Area ('GKA') and infrastructure. It is an excellent example of Maximising Economic Recovery ('MER') in practice.

With unit capital costs under \$20/bbl, Scolty/Crathes also demonstrates in practice the capital discipline that is essential at this stage in EnQuest's evolution, focused on a limited capital expenditure programme and on cash flow generating activities.

EnQuest reached its highest level of production in 2016, but below initial targets. Production was affected by longer than forecast third party shutdowns and also by disappointing productivity from Alma/Galia.

The cost reduction programme to streamline operations continued in 2016, helping to drive Group unit opex to the mid \$20s per barrel, down almost 50% on the levels of early 2014. This was delivered by many initiatives and innovations across the operations and supply chain, including further reductions in service unit rates, supplier forums, open book contracts, and additional incentivised contract structures linking payment to performance. Payment compliance audits were used to ensure that contract terms were rigidly and correctly enforced. Centralising the procurement team has taken advantage of lower global costs.

In 2016 in the UK, an HSE&A audit programme was completed, with findings being part of the 2017 continual improvement programme. This underlines EnQuest's focus on improvement through the detection and resolution of HSE&A issues.

Magnus and Sullom Voe

In January 2017, EnQuest was delighted to announce the proposed acquisition of interests in the Magnus oil field in the northern North Sea and in the Sullom Voe Terminal ('SVT') on Shetland, from BP.

Magnus has well understood reservoirs with significant high quality subsurface data including 4D seismic. EnQuest sees upside potential in Magnus' resource base and has the necessary skills to realise the latent value therein. There are currently three mature drilling targets with the potential to be onstream in 2018. Two of these wells will expand the existing Water Alternating Gas ('WAG') scheme. Beyond this, there are significant further opportunities, including further expansion of WAG, which EnQuest expects to be realised in the future. EnQuest's proven ability to reliably drill low cost wells will be instrumental in commercialising Magnus' remaining resource potential.

EnQuest materially reduced its unit operating costs between 2014 and 2016, whilst also delivering high levels of operating efficiency. EnQuest anticipates being able to apply the same approach to Magnus, significantly reducing unit operating costs and increasing operating efficiency. EnQuest also expects economies of scale from combining with its existing operations, including savings in logistics, contracts and overhead, creating further efficiencies across EnQuest's 'Northern North Sea' portfolio.

Building on the work that BP as operator and EnQuest and other owners have done in recent years, EnQuest expects to be able to improve efficiency and costs and extend the life of the Sullom Voe oil terminal. In so doing, this will extend the lives of EnQuest's Northern North Sea oil fields. Such operating improvements will have a wider effect and benefit adjacent fields and infrastructure, helping to rejuvenate northern North Sea operations generally. This would also be a further demonstration of EnQuest's commitment to the region and of its capabilities.

Thistle/Deveron

Working interest at end 2016: 99%

Decommissioning liabilities: Original liabilities remain with former owner*

Fixed steel platform

Daily average net production:

2016: 7,533 Boepd

2015: 8,930 Boepd

* Under the terms of EnQuest's proposed acquisition of interest in the Magnus oil field and the Sullom Voe Terminal, EnQuest has an option to receive \$50 million in cash in exchange for undertaking the management of the physical decommissioning for Thistle and Deveron and making payments by reference to 6% of the gross decommissioning costs of the Thistle and Deveron fields.

2016

Across 2016, average production from Thistle/Deveron was 7,533 Boepd.

2016 reflected the benefit of the 2015 drilling programme; the planned Southern Fault Block P2 sidetrack was however halted at the start of the year due to slot recovery issues. In Q1 2016, one of the Thistle power generation turbines was overhauled and other maintenance and integrity projects continued throughout the year. Further production enhancing field life extension work was scheduled for the middle of 2016, during a Thistle production shutdown planned to coincide with a third party shutdown of the Brent Pipeline System ('BPS'). However, the BPS shutdown was delayed to the end of the year, thereby delaying Thistle production enhancements. The BPS shutdown itself proved to be considerably longer than expected, resulting directly in four weeks of lost production. Bad weather in late December then also affected production start up by a further week. In December, Thistle started and successfully commissioned new process plant and associated controls. Water injection remained offline during this period to support essential electrical maintenance and to address flexible flowline integrity.

2017 and beyond

On both Thistle and Heather there is a programme to abandon redundant well stock, co-funded by EnQuest's partners. This will both reduce risk and present opportunities in the future to drill further infill wells when circumstances allow. The related Thistle programme of partial well abandonments will continue throughout 2017, starting with the abandonment of well A05/25, which commenced in January 2017. The phased approach to decommissioning utilises EnQuest's ability to execute low cost well work for the benefit of all Thistle stakeholders and is an important new component of Thistle's life extension strategy.

The BPS operator is planning a further shutdown in 2017, currently expected to result in a Thistle shutdown in Q3.

The Don fields

Working interest at end 2016:

- Don Southwest 60%

- Conrie 60%

- West Don 78.6% *

- Ythan 60%

Decommissioning liabilities: As per working interests

Floating production unit with subsea wells

Daily average net production:

2016: 5,404 Boepd

2015: 7,690 Boepd

* Following the default of First Oil plc in February 2016, a process was initiated which resulted in the transfer to EnQuest of 15.15% of First Oil's working interest in the West Don field. The transfer was completed on 2 August 2016, increasing EnQuest's stake from its previous 63.45%.

2016

Across 2016, average production from the Don fields was 5,404 Boepd.

2016 reservoir performance for the Don wells was above expectations, particularly with the benefit of the Ythan production well, drilled last year. However, the delay and extension of the third party BPS shutdown also affected the Don fields, with planned Dons production enhancement projects considerably delayed and with an extended 32 day Dons shutdown at the end of H2 2016. The 2016 Dons work programme included chemical treatment programmes and routine maintenance throughout the year. The start of gas import benefitted production in the first half of the year, increasing plant efficiency and reducing production costs. A water injection line failure on Don Southwest reduced production with a temporary repair being successfully completed in November.

2017 and beyond

The planned BPS shutdown will impact the Dons similarly to Thistle, with a Don fields shutdown expected in Q3.

Heather/Broom

Working interest at end 2016:

- Heather 100%
- Broom 63%

Decommissioning liabilities:

- Heather 37.5%
- Broom 63%

Fixed steel platform

Daily average net production:

2016: 5,948 Boepd

2015: 4,643 Boepd

2016

Across 2016, average production from Heather/Broom was 5,948 Boepd.

The strong production performance resulted from a combination of work to increase water injection reliability and increased injectivity from the wells drilled and worked over in 2015. The Heather Alpha platform also had outstanding reliability with no unplanned outages. Maintenance and integrity projects continued as normal.

2017 and beyond

Following on from the Thistle well programme, the drill crew will move to Heather in the second half of 2017 to start a similar programme of well decommissioning. Removing legacy wells will safeguard current sustained high water injection efficiency. EnQuest is pleased to have gained decommissioning partner funding for this important life extension work.

A Heather hub shutdown for routine inspection and maintenance is expected Q3 2017.

Greater Kittiwake Area ('GKA')

At end 2016, working interest 50% in each of:

- Kittiwake
- Grouse
- Mallard
- Gadwall
- Goosander

Decommissioning liabilities:

Kittiwake 25%

Mallard 30.5%

Grouse, Gadwall and Goosander 50%

Fixed steel platform

100% interest in export pipeline from GKA to Forties Unity platform

Daily average net production:

2016: 2,988 Boepd

2015: 3,981 Boepd

2016

Across 2016, average production from GKA was 2,988 Boepd.

Production at the start of the year benefitted from continuing improvements in production efficiency, strong performance of the recently sidetracked Gadwall well, and from chemical treatments on Goosander conducted in 2015. The work programme at the start of the year focused on operational upgrades and on offshore construction on the Kittiwake platform in readiness for the tie-back of the Scolty/Crathes fields. H2 2016 included the planned three week shutdown, which included preparation for Scolty/Crathes delivering production on 21 November. GKA encountered gas compressor issues which resulted in Grouse being shut in for part of H2 2016, before being brought back online after the compressor was reinstated. In Q2 2016, EnQuest undertook the drilling of the nearby Eagle exploration well, which was confirmed as a discovery.

2017 and beyond

The work programme in GKA for 2017 will be focused on optimising production across the assets and concluding the minimal scope of work remaining from the Scolty/Crathes project: the replacement of the associated gas compressor ('A-Gas'). Grouse would also be offline during the gas system shutdown. No drilling is planned on GKA in 2017. Evaluation of the potential from the Eagle discovery is ongoing.

A chemical treatment (scale squeeze) is planned in the summer of 2017 for the Mallard well to coincide with the planned three week GKA shutdown in Q3 2017.

Scolty/Crathes

At end 2016, working interest 50% in each of:

- Scolty
- Crathes

Decommissioning liabilities: As per working interests

Tied back to the Kittiwake platform

Daily average net production:

2016: 719 Boepd

Data is based on the net production since first oil from Scolty/Crathes on 21 November 2016, as averaged over the full year.

2016

In 2016, the Scolty/Crathes development progressed ahead of schedule and under budget, with excellent drilling performance on both wells. On 21 November 2016, EnQuest delivered first oil from Scolty/Crathes, which had previously been anticipated by the end of H1 2017. Early production has been consistent with pre-drill modelling and field development plan assumptions; average production in 2016 from 21 November to 31 December was 6,422 Boepd.

2017 and beyond

The 2017 programme for Scolty and Crathes will be focused on optimising production across the two fields, as part of this process the Scolty well is currently shut in. Production will be affected by the same outages as are planned for GKA in 2017.

Alma/Galia

Working interest at end 2016:

- 65% in both fields

Decommissioning liabilities: As per working interest

Floating, Production Storage and Offloading unit ('FPSO') with subsea wells

Daily average net production

2016: 6,740 Boepd

2015: 1,083 Boepd*

* Net production since first oil on 27 October 2015, averaged over the twelve months to the end of December 2015

2016

Across 2016, average production from Alma/Galia was 6,740 Boepd, following delivery of first oil in October 2015.

By Q2 2016, six production wells were onstream. After analysis of the initial results, a production performance enhancement work programme was established. The K2 (AP5) well cleaned up naturally after a number of weeks of production resulting in significantly better performance. K1 (AP4) required a chemical treatment which was successful and the workover of the K3Z (AP1) well further increased production. Well K6 was not completed due to mechanical issues and was replaced by well K7 (AP6) which came onstream late in Q4. K7 (AP6) overall productivity has been broadly as anticipated.

Productivity from Alma/Galia has been negatively impacted by well performance including ESP reliability. In October 2016, the EnQuest Producer was brought onto permanent power with the boiler and steam turbines online.

2017 and beyond

In 2017, the final phase of the power optimisation and the produced and sea water injection optimisation projects will be completed on the EnQuest Producer. Discussions are ongoing with the ESP supplier, on rectification plans to address the pump reliability issues. An unscheduled shutdown took place in January/February as a result of damage from severe winter storms; Alma/Galia performed well after being brought back onstream. A two week maintenance shutdown is scheduled for Q2 2017.

Alba (non-operated) The Alba oil field is operated by Chevron.

Working interest at end of 2016: 8%

Decommissioning liabilities: As per working interest

Fixed steel platform

Daily average net production:

2016: 1,271 Boepd

2015: 1,178 Boepd

2016

Across 2016, average production from Alba was 1,271 Boepd.

2017 and beyond

A maintenance shutdown is planned in Q3.

Proposed acquisition of interests in the Magnus oil field and in the Sullom Voe Terminal.

On 24 January 2017, EnQuest PLC announced an agreement to acquire from BP an initial 25% interest in the Magnus oil field representing c.16 MMboe of additional net 2P reserves (gross reserves of 63 MMboe) with net production of c.4,200 Boepd in 2016 (gross production c.16,600 Boepd) as well as a 3.0% interest in the Sullom Voe oil terminal and supply facility ('SVT'), 9.0% of Northern Leg Gas Pipeline ('NLGP'), and 3.8% of Ninian Pipeline System ('NPS'). Prior to this transaction, EnQuest had existing interests of 3.0% in SVT, 5.9% in NLGP and 2.7% in NPS.

EnQuest is to become the operator of these assets and the transaction is subject to certain regulatory, government authority, counterparty and partner consents. The transition for the change in operatorship is anticipated to take between 6 and 12 months from the date of the announcement.

Magnus

Magnus is a maturing asset with significant remaining potential.

Facilities

The Magnus platform is located in Block 211/12A and is the most northerly installation in the UKCS, its closest neighbours are Northern Producer (c.12 miles) and Thistle (c.19 miles). Magnus started operations in 1983. It has integrated production/drilling/accommodation facilities. Since 2010, its levels of operating efficiency have been low (30%-70%).

Reservoir and wells

The majority of hydrocarbons in place sit within the high quality Upper Jurassic turbidite Magnus Sandstone Member ('MSM'). Significant other resources sit in the Lower Kimmeridge Clay Formation ('LKCF'). Overall the Magnus field has 2.0 billion boe hydrocarbons initially in place ('HCIIP'), with an 54% Recovery Factor ('RF'). Over 100 well penetrations have been drilled in over 30 years, there are 28 platform slots and five subsea wells. It has 14 active gas-lifted producers and 10 injectors. Water Alternating Gas ('WAG') enhanced oil recovery ('EOR') started in 2002 within the MSM. It has been monitored using 4D seismic surveys, the most recent of which was in 2013.

Sullom Voe Terminal ('SVT')

A strategic infrastructure hub.

SVT was commissioned in 1978 and receives East of Shetland ('EoS') oil via two pipelines: the Brent Pipeline System ('BPS') which services Brent, Thistle, Northern Producer, Alwyn and TENCCA; and the Ninian Pipeline System ('NPS') which services Ninian, Magnus and Heather. EoS oil is stabilised, stored and offloaded to tankers. The peak EoS processing rate was 1.5 million bpd in 1985; the current rate is c.130,000 bpd.

Since 1998, the terminal has also provided services to West of Shetland ('WoS') fields. Schiehallion crude was tankered to SVT and used tanks and jetties. An additional oil pipeline from Clair was commissioned in 2005. Clair oil does not require stabilisation, but uses tanks and jetties. Gas from Foinaven, Schiehallion and Clair is 'sweetened' at SVT before being shipped to Magnus, for EOR and onward export. The terminal has recently started to process condensate from Total's Laggan-Tormore development.

MALAYSIAN OPERATIONS

PM8/Seligi

Working interest at end 2016: 50%

Decommissioning liabilities:

- PM8 50%

- Seligi 50% of partial liability allocated based on ratio of remaining oil reserves and to estimated ultimate recovery

In addition to the main production platform and separate gas compression platform, there are 11 minimum facility satellite platforms tied back to the main platform

Daily average net production:

2016: 7,960 Boepd (working interest): 5,594 Boepd (entitlement)

2015: 8,689 Boepd (working interest): 5,958 Boepd (entitlement)

2016

Across 2016, average production from PM8/Seligi was 7,960 Boepd.

Overall 2016 field performance was strong. Average annual production volumes were reduced by 21 days of maintenance shutdowns, compared to 3.5 shutdown days in 2015, and by lower gas sales, (325 Boepd), due to lower demand.

A total of 17 idle well strings were re-activated during 2016, adding an additional c.5,000 Boepd of gross production. This included two add-perforation jobs in November which added over c.1,000 Boepd of gross production. As a result of the successful idle well activation programme and improvements to plant stability at Seligi-A platform, the field achieved very strong levels of oil production.

2017 and beyond

EnQuest will continue to enhance production by investing in low cost well interventions and facility projects to improve production efficiency, including gas compression control system upgrades to improve reliability. In addition, robust maintenance and integrity inspection campaigns of platform structures, topsides, and subsea pipelines will continue to ensure safe operations. This includes a planned annual maintenance shutdown in Q3 2017.

Longer term, EnQuest will extend field life through further investment in idle well restoration, facility improvements and upgrades and technical studies supporting development drilling and secondary recovery projects to increase ultimate recovery. During 2017, the first new drilling projects will be defined for execution in 2018, and significant progress will be made on rebuilding of static and dynamic reservoir simulation models in support of longer term field redevelopment.

Tanjong Baram

Working interest at end 2016: 70%

Decommissioning liabilities: None

Daily average net production:

2016: 1,188 Boepd (working interest): 832 Boepd (entitlement)

2015: 373 Boepd (working interest): 261 Boepd (entitlement)

2015 data reflects net production from first production in June 2015 averaged over the 12 months to end December 2015.

2016

Across 2016, average production from Tanjong Baram was 1,188 Boepd.

Tanjong Baram operational efficiency and uptime remained high throughout the year.

2017 and beyond

Focus remains on steady, safe and low cost operations in 2017. In addition, three options aimed at reviving well A1 are under technical review; the review will be completed in H1 2017.

RISKS AND UNCERTAINTIES

Management of risks and uncertainties

The Board has articulated EnQuest's strategy to deliver value by targeting maturing assets and underdeveloped oil fields. EnQuest has prioritised its strategic focus to deliver on execution targets, streamline operations and strengthen its balance sheet. As EnQuest moves from a period of heavy investment to one focused on realising value from existing resources and capabilities, it will strictly maintain financial discipline and focus on driving cash flow.

In pursuit of this strategy, EnQuest has to face and manage a variety of risks. Accordingly, the Board has established a Risk Management Framework to enhance effective risk management within the following overarching statement of risk appetite approved by the Board:

- We aim to deliver consistently above median investment performance
- We will manage the investment portfolio against agreed key performance indicators consistent with the strategic objectives of enhancing net revenues and strengthening the balance sheet
- We seek to avoid reputational risk by ensuring that our operational processes and practices reduce the potential for error to the extent practicable
- We seek to embed a risk culture within our organisation corresponding to the appetite for risk which is articulated for each of our principal risks
- We seek to manage operational risk by means of a variety of controls to prevent or mitigate occurrence
- We set clear tolerances for all material operational risks to minimise overall operational losses, with zero tolerance for criminal conduct

We seek to balance our risk position between investing in activities that may drive growth and the continuing need to remain a financially disciplined and low-cost, cash flow generating operator as the Group reduces its debt and appropriate market opportunities present themselves. In this regard the Board has commenced a process to develop certain specific principles to guide the Company during the current phase of its evolution which tie together the Company's thinking on strategy and risk. Broadly, these would reflect a focus by the Company on:

- Adding value to assets which are already in production and within geographical parameters
- Adhering to specific disciplines in capital allocation decisions and management of capital structure
- Management of portfolio concentration risks
- Ensuring target setting for personnel aligns appropriately with the Company's strategy and risk appetite

The Board reviews the Company's risk appetite annually in light of changing market conditions and the Company's performance and strategic focus. The Executive Committee periodically reviews and updates the Group Risk Register based on the individual risk registers of its members. The Group Risk Register, along with an assurance mapping exercise and a risk report (focused on the most critical risks and emerging and changing risk profiles), is periodically reviewed by the Board (with senior management), to ensure that key issues are being adequately identified and actively managed. In addition, a sub-Committee of the Board has been established (the Risk Committee) to provide a forum for the Board to review selected individual risk areas in greater depth.

The Board, upon the advice of the Audit Committee, has reviewed the Group's system of risk management and internal control for the period from 1 January 2016 to the date of this report, and is satisfied that they are effective and that the Group complies in this respect with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

Key business risks

The Group's principal risks are those which could prevent the business from executing its strategy and creating value for shareholders or lead to a significant loss of reputation. The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

Cognisant of the Group's financial restructuring (and consequent strategic focus on deleveraging and strengthening its balance sheet), the Board is satisfied that the Group's risk management system works effectively in assessing and managing the Group's risk appetite and has supported a robust assessment by the Directors of the principal risks facing the Group.

Set out below are the principal risks and mitigations (together with an estimate of the potential impact and likelihood of occurrence after the mitigation actions and how these have changed in the past year) and an articulation of the Group's risk appetite for each of these principal risks. Amongst these, the key risks the Group currently faces are a prolonged low oil price environment and/or a sustained decline in oil prices (see "Oil Price" risk) and any material delay to achieving first oil and/or materially lower than expected production performance at the Kraken field (see "Project execution" and "Production" risks).

Risk	Appetite	Mitigation
<p>Health, safety and environment ('HSE') Oil and gas development, production and exploration activities are complex and HSE risks cover many areas including major accident hazards, personal health and safety, compliance with regulatory requirements and potential environmental harm.</p> <p>Potential impact – Medium (2015 Medium) Likelihood – Low (2015 Low)</p> <p>There has been no material change in the potential impact or likelihood and the Group's overall record on HSE remains robust.</p>	<p>The Group strives to provide a highly secure setting for its people and the natural environment and we endeavour constantly to improve our safety standards back to where we have shown we can deliver with zero recordable or high potential incidents. There is no reason for anyone associated with our business to take safety risks other than those normally associated with oil and gas operations and the Group has a low appetite for risks to HSE.</p>	<p>The Group maintains, in conjunction with its core contractors, a comprehensive programme of HSE, asset integrity and assurance activities and has implemented a continual 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 and during 2016, the Group completed a comprehensive UK HSE&A audit programme, with outcomes fed into our 2017 Continual Improvement Programme and revisited and restated its Hydrocarbon Release Prevention Improvement Plan.</p> <p>In addition, the Group has a positive and transparent relationship with the UK Health and Safety Executive and Department for Business, Energy & Industrial Strategy.</p> <p>EnQuest's HSE&A Policy is now fully integrated across our operated sites and this has enabled an increased focus on Health, Safety and the Environment. There is a strong assurance programme in place to ensure EnQuest complies with its Policy and Principles and regulatory commitments.</p> <p>When appropriate, EnQuest will extend the application of its HSE&A policies, activities and programmes to operatorship of the Magnus oil field, Sullom Voe Terminal (and associated pipelines); see for further details.</p>
<p>Production The Group's production is critical to its success and is subject to a variety of risks including subsurface uncertainties, operating in a mature field environment and potential for significant unexpected shutdowns and unplanned expenditure to occur (particularly where remediation may be dependent on suitable weather conditions offshore).</p> <p>Lower than expected reservoir performance may have a material impact on the Group's results.</p> <p>The Group's delivery infrastructure in the UKCS is, to a significant extent, dependent on the Sullom Voe Terminal.</p> <p>Longer-term production is threatened if low oil prices bring forward decommissioning timelines.</p> <p>Potential impact – High (2015 High) Likelihood – Low (2015 Low)</p> <p>There has been no material change in the potential impact or likelihood: while reliance on the Sullom Voe Terminal has decreased due to the Alma/Galia and Scolty/Crathes projects coming on-stream (and will reduce further when Kraken comes onstream), production at Alma/Galia has been below expectations to date.</p> <p>Also, until the Kraken project is fully on stream, the possibility of production at the field being below expectations cannot be discounted.</p>	<p>Since production efficiency is core to our business and the Group seeks to maintain a high degree of operational control over production assets in its portfolio, EnQuest has a very low tolerance for operational risks to its production (or the support systems that underpin production).</p>	<p>The Group's programme of asset integrity and assurance activities provide 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 KPIs in relation to its maintenance activities and liaises closely with its downstream operators to minimise pipeline and terminal production impacts.</p> <p>Production efficiency is continually monitored with losses being identified and remedial and improvement opportunities undertaken as required. A continual, rigorous cost focus is also maintained.</p> <p>Life of asset production profiles are audited by independent reserves auditors. The Group also undertakes regular internal reviews. The Group's forecasts of production are risked to reflect appropriate production uncertainties.</p> <p>The Sullom Voe Terminal has a good safety record and its safety and operational performance levels are regularly monitored and challenged by the Group and other terminal owners and users to ensure that operational integrity is maintained. Further, EnQuest expects to be well positioned to manage potential operational risks related to Sullom Voe Terminal once it steps into operatorship of the terminal. Nevertheless, the Group actively continues to explore the potential of alternative transport options and developing hubs that may provide cost savings.</p>

Risk	Appetite	Mitigation
<p>Project execution The Group's success will be partly dependent upon bringing Kraken to production on budget and on schedule.</p> <p>Potential impact – High (2015 High) Likelihood – Low (2015 Low)</p> <p>The potential impact has been partially offset by the Alma/Galia and Scolty/Crathes coming into production in 2015 and 2016 respectively. Further, although the Kraken project remains on time and on budget (the Kraken development FPSO is securely moored on station where commissioning work continues); until first oil is achieved, the potential impact remains high.</p> <p>Further, as the Group focuses on deleveraging its balance sheet, executing new large-scale developments is not considered a strategic priority in the short-term.</p>	<p>The efficient delivery of new developments has been a key feature of the Group's long-term strategy. Following the entry into production of the Alma/Galia and Scolty/Crathes projects, the Company recognises that until the Kraken development is in production, the Company continues to have considerable exposure to development risks associated with the project and that this exposure is now greater than had been anticipated before the industry oil price crisis of the past two years. While the Group necessarily assumes significant risk when it sanctions a new development (for example, by incurring costs against oil price assumptions), it requires that risks to efficient implementation of the project are minimised.</p>	<p>The Group has project teams which are responsible for the planning and execution of new projects with a dedicated team for each development. The Group has detailed controls, systems and monitoring processes in place to ensure that deadlines are met, costs are controlled and that design concepts and the Field Development Plans are adhered to and implemented. These are modified when circumstances require and only through a controlled management of change process and with the necessary internal and external authorisation and communication. The Group also engages third party assurance experts to review, challenge and, where appropriate, make recommendations to improve the processes for project management, cost control and governance of major projects. 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>The Kraken development was sanctioned by DECC and EnQuest's partners in November 2013. First oil production remains scheduled for Q2 2017. Prior to sanction, EnQuest identified and optimised the development plan using EnQuest's pre-investment assurance processes.</p> <p>With respect to the Kraken development, the FPSO is being provided by a third party on a lease basis to mitigate risk of cost overrun. A total of seven production and six injection wells have now been safely drilled and completed, with results in-line with pre-drill predictions.</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>Potential impact – High (2015 High) Likelihood – Medium (2015 Medium)</p> <p>There has been no material change in the potential impact or likelihood as oil price volatility and a focus on strengthening the balance sheet continues to limit business development activity to the pursuit of reserves enhancing, selective, cash-accretive opportunities (such as the acquisition of an interest in the Magnus oil field).</p> <p>Low oil prices can potentially affect development of contingent and prospective resources and can also affect reserve certifications.</p>	<p>Reserves replacement is an element of the Group's success. The Group has some tolerance for the assumption of risk in relation to the key activities required to deliver reserves growth, such as drilling and acquisitions.</p>	<p>The Group puts a strong emphasis on subsurface analysis and employs industry leading professionals. The Group continues to recruit in a variety of technical positions which enables it to manage existing assets and evaluate the acquisition of new assets and licences.</p> <p>All analysis is subject to internal and, where appropriate, external review. All reserves are currently externally reviewed by a Competent Person. In addition, EnQuest has active business development teams both in the UK and internationally developing a range of opportunities and liaising with vendors/government.</p>

Risk	Appetite	Mitigation
<p>Financial Inability to fund financial commitments.</p> <p>The Group's term loan and revolving credit facility contains certain financial covenants (based on the ratio of indebtedness incurred under the term loan and revolving facility to EBITDA, finance charges to EBITDA and a requirement for liquidity testing). Prolonged low oil prices, cost increases and production delays or outages could threaten the Group's liquidity and/or ability to comply with relevant covenants.</p> <p>Potential impact – High (2015 High) Likelihood – High (2015 High)</p> <p>There has been no material change in the potential impact or likelihood: although the Group successfully completed a financial restructuring, it remains highly reliant on the successful completion of the Kraken development and production at Kraken being in line with expectations. Further information is contained in the going concern and viability paragraphs of the Financial Review.</p>	<p>The Group recognises that significant leverage has been required to fund its growth and as low oil prices have impacted revenues. However, it is intent on reducing its leverage levels, maintaining liquidity and complying with its obligations to finance providers while delivering shareholder value, recognising that reasonable assumptions relating to external risks need to be made in transacting with finance providers.</p>	<p>During the year, the Group completed a financial restructuring involving:</p> <p>(i) Amendments to its:</p> <ul style="list-style-type: none"> • revolving credit facility (including, inter alia, an extension of the maturity date/amendment of the amortisation schedule and relaxation of financial covenants); • retail bond (including, inter alia, making cash interest payments contingent on certain conditions (including relating to the oil price) being met, an extension of the maturity date and a removal of financial covenants); and • high yield bond (including, inter alia, making cash interest payments contingent on certain conditions (including relating to the oil price) being met and an extension of the maturity date). <p>(ii) A placing and open offer was successfully completed with gross aggregate proceeds of £82 million.</p> <p>These steps together are expected to provide the Group with a stable and sustainable capital structure, reduced cash debt service obligations and greater liquidity so as to strengthen its balance sheet for longer-term growth.</p> <p>Ongoing compliance with the financial covenants under the Group's term loan and revolving credit facility is actively monitored and reviewed.</p> <p>Funding from the bonds and revolving credit facility is supplemented 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 adequate resources for its needs.</p> <p>The Group is continuing to maintain a focus on controlling and reducing costs through supplier renegotiations, cost-cutting and rationalisation. Where costs are incurred by external service providers, e.g. at Sullom Voe Terminal, the Group actively challenges operating costs. The Group also maintains a framework of internal controls. Further, production at Scolthy/Crathes and completion of the Kraken development should lead to increases in production and decreases in average unit operating costs across the Group.</p>

Risk	Appetite	Mitigation
<p>Human resources The Group's success continues to be dependent upon its ability to attract and retain key personnel and develop organisational capability to deliver strategic growth. Industrial action across the sector could also impact on the operations of the Group.</p> <p>Potential impact – Low (2015 Low) Likelihood – Medium (2015 Medium)</p> <p>There has been no material change in the potential impact or likelihood.</p>	<p>As a low cost, lean organisation, the Group relies on motivated and high quality employees to achieve its targets and manage its risks. The Group recognises that the benefits of a lean and flexible organisation require agility to assure against the risk of skills shortages.</p>	<p>The Group has established a competent employee base to execute its principal activities. In addition to this, the Group seeks to maintain good relationships with its employees and contractor companies and regularly monitors the employment market to provide remuneration packages, bonus plans and long-term share-based incentive plans that incentivise performance and long-term commitment from our employees to the Group.</p> <p>EnQuest is undertaking a number of human resource initiatives. These initiatives are part of the overall People and Organisation strategy and have specific themes relating to Organisation, People, Performance and Culture. The culture of the Group is an area of increased focus given the rapid growth of the Group and as it absorbs a significant number of personnel into the business with its acquisition of operating interests in the Magnus field and the Sullum Voe Terminal.</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>The focus on Executive and senior management retention, succession planning and development remains an important priority for the Board and an increasing emphasis will continue to be placed on this. It is a Board-level priority that Executive and senior management possess the appropriate mix of skills and experience to realise the Group's strategy; succession therefore remains a key priority.</p>
<p>Reputation The reputational and commercial exposures to a major offshore incident are significant.</p> <p>Potential impact – High (2015 High) Likelihood – Low (2015 Low)</p> <p>There has been no material change in the potential impact or likelihood.</p>	<p>The Group has no tolerance for conduct which may compromise its reputation for integrity and competence.</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 requires adherence to its Code of Conduct and runs compliance programmes to provide assurance on conformity with relevant legal and ethical requirements.</p> <p>The Group undertakes regular audit activities to provide assurance on compliance with established policies, standards and procedures.</p>

Risk	Appetite	Mitigation
<p>Oil price A material decline in oil and gas prices adversely affects the Group's operations and financial condition.</p> <p>Potential impact – High (2015 High) Likelihood – High (2015 High)</p> <p>There has been no material change in the potential impact or likelihood.</p>	<p>The Group recognises that considerable exposure to this risk is inherent to its business.</p>	<p>This risk is being mitigated by a number of measures including hedging oil price, renegotiating supplier contracts, reducing costs and commitments and seeking to institutionalise a lower cost base.</p> <p>The Group monitors oil price sensitivity relative to its capital commitments and has a policy which allows hedging of its production; the Group has hedged 6 million bbls for 2017 at a price of approximately US\$51/bbl. This ensures that the Group will receive a minimum oil price for 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 impact of changes in oil prices while remaining within the limits set by its term loan and revolving credit facility.</p> <p>The Group has established an in-house trading and marketing function to enable it to enhance its ability to mitigate the exposure to volatility in oil prices.</p> <p>Further, as described above, the Group's focus on production efficiency supports mitigation of a low oil price environment.</p>
<p>Political and fiscal Unanticipated changes in the regulatory or fiscal environment can affect the Group's ability to deliver its strategy and potentially impact revenue and future developments.</p> <p>Potential impact – High (2015 High) Likelihood – Low (2015 Low)</p> <p>There has been no material change in the potential impact or likelihood.</p> <p>While "Brexit" appears unlikely to directly impact the Group materially, it has increased the possibility of a further Scottish independence referendum.</p>	<p>The Group faces an uncertain macro-economic and regulatory environment. Due to the nature of such risks and their relative unpredictability, it must be tolerant of certain inherent exposure.</p>	<p>It is difficult for the Group to predict the timing or severity of such changes. However, through Oil & Gas UK and other industry associations the Group does engage with government and other appropriate organisations in order to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations.</p> <p>All business development or investment activities recognise potential tax implications and the Group maintains relevant internal tax expertise.</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>Potential impact – Medium (2015 Medium) Likelihood – Medium (2015 Medium)</p> <p>There has been no material change in the potential impact or likelihood.</p>	<p>The Group requires partners of high integrity. It recognises that it must accept a degree of exposure to the creditworthiness of partners and evaluates this aspect carefully as part of every investment decision.</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 and rigorous and continual assessment of the financial situation of partners.</p> <p>The Group generally prefers 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. During 2016, the Group acquired a 10.5% participating interest in Kraken for nominal consideration from First Oil, a partner which defaulted on its ongoing financial obligations to the project. Additionally, the Group acquired a further 15.15% interest in the West Don field, also from First Oil.</p>

Risk	Appetite	Mitigation
<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>Potential impact – Medium (2015 Medium) Likelihood – Medium (2015 Medium)</p> <p>There has been no material change in the impact or likelihood.</p>	<p>The Group operates in a mature industry with well-established competitors and aims to be the leading operator in the sector; it thus has a high appetite for this risk.</p>	<p>The Group has strong technical and business development capabilities to ensure it is well positioned to identify and execute potential acquisition opportunities.</p> <p>The Group maintains good relations with oil and gas service providers and constantly keeps the market under review.</p>
<p>Portfolio concentration The Group's assets are concentrated in the UK North Sea around a limited number of infrastructure hubs and existing production (principally only oil) is from mature fields. This amplifies exposure to key infrastructure, political/fiscal changes and oil price movements.</p> <p>Potential impact – High (2015 Medium) Likelihood – Medium (2015 Medium)</p> <p>The acquisition of an interest in the Magnus oil field and Sullom Voe Terminal (and associated pipelines) has elevated this risk in the long-term (by further concentrating the Group's portfolio in the UK North Sea); further, although production from Alma/Galia and Kraken (where the Group now has an increased exposure due to the acquisition of an additional working interest of 10.5%) represent new production hubs for the Group, both projects further extend geographic concentration of the Group's production in the UK North Sea.</p>	<p>Although the extent of portfolio concentration is moderated by production generated internationally, the majority of the Group's assets remain relatively concentrated in the UK North Sea and therefore this risk remains intrinsic to the Group.</p>	<p>This risk is mitigated in part through acquisitions. For all acquisitions, the Group uses a number of business development resources to evaluate and transact acquisitions in a commercially sensitive matter. This includes performing extensive due diligence (using in-house and external personnel) and actively involving executive management in reviewing commercial, technical and other business risks together with mitigation measures.</p> <p>The Group also constantly keeps its portfolio under rigorous review and accordingly, actively considers the potential for making disposals and divesting, executing development projects, making international acquisitions and expanding hubs where such opportunities are consistent with the Group's focus on enhancing net revenues, generating cash-flow and strengthening the balance sheet.</p> <p>The acquisition of the Greater Kittiwake Area in 2014 which produces via the Forties Pipeline System ('FPS') and the start-up of Alma/Galia which produces to shuttle tankers reduced the Group's prior concentration to the Brent Pipeline System ('BPS') and the Sullom Voe Terminal. Start-up of the Kraken field, which also exports via shuttle tankers will reduce further any concentration risk in 2017. Although, on successful completion of the Group's planned acquisition of the Magnus field and Sullom Voe Terminal from BP the Group will see a further concentration in SVT, as the Magnus field produces via the Ninian Pipeline System ('NPS'), this will not concentrate risk further in BPS. It should also be noted that the Heather and Broom fields also produce via NPS. Although the Group has concentration risk at Sullom Voe Terminal, taking operatorship of the terminal will put the Group in a position of more direct control of such risk.</p>

Risk	Appetite	Mitigation
<p>International business While the majority of the Group's activities and assets are in the UK, the international business is still material. The Group's international business is subject to the same risks as the UK business (e.g. HSE, production and project execution); however, there are additional risks that the Group faces including security of staff and assets, political, foreign exchange and currency control, taxation, legal and regulatory, cultural and language barriers and corruption.</p> <p>Potential impact – Medium (2015 Medium) Likelihood – Low (2015 Low)</p> <p>There has been no material change in the impact or likelihood.</p>	<p>In light of its long-term growth strategy, the Group seeks to expand and diversify its production (geographically and in terms of quantum); as such, it is tolerant of assuming certain commercial risks which may accompany the opportunities it pursues. However, such tolerance does not impair the Group's commitment to comply with legislative and regulatory requirements in the jurisdictions in which it operates. Opportunities should enhance net revenues and facilitate strengthening of the balance sheet.</p>	<p>Prior to entering into a new country, EnQuest evaluates the host country to assess whether there is an adequate and established legal and political framework in place to protect and safeguard first its expatriate and local staff and, second, any investment within the country in question.</p> <p>When evaluating international business risks, executive management reviews commercial, technical and other business risks together with mitigation and how risks can be managed by the business on an ongoing basis.</p> <p>EnQuest looks to employ suitably qualified host country staff and work with good quality local advisers to ensure it complies within national legislation, business practices and cultural norms while at all times ensuring that staff, contractors and advisers comply with EnQuest's business principles, including those on financial control, cost management, fraud and corruption.</p> <p>Where appropriate, the risks may be mitigated by entering into a joint venture with partners with local knowledge and experience.</p> <p>After country entry, EnQuest maintains a dialogue with local and regional government, particularly with those responsible for oil, energy and fiscal matters, and may obtain support from appropriate risk consultancies. When there is a significant change in the risk to people or assets within a country, the Group takes appropriate action to safeguard people and assets.</p>

FINANCIAL REVIEW

Financial Overview

Following the significant decline in oil prices from late 2014, EnQuest has focused on delivering on execution targets, streamlining operations and strengthening the balance sheet. During 2016, the Company delivered its highest annual production since the Company started in 2010, brought the Scolty/Crathes development to first oil ahead of schedule and under budget, reduced its operating costs further and completed a comprehensive financial restructuring. This restructuring, which included amendments to the credit facility and bonds, as well as a placing and open offer, puts EnQuest in a stronger position to deliver the Kraken development in Q2 2017 and ensures that the Company is well placed to deliver value to shareholders in the medium term.

Production, on a working interest basis, increased by 9% to 39,751 Boepd, compared to 36,567 in 2015. This reflects a full year of production from Alma/Galia and Tanjong Baram, initial production from Scolty/Crathes, increased production from Heather/Broom, partially offset by the impact of longer shutdowns at other fields, mainly due to maintenance on third party infrastructure.

Reflecting EnQuest's drive to streamline operations, together with the increase in production volumes, unit operating costs reduced by 17% to \$24.6 per barrel.

	Business performance	
	2016	2015
	\$ million	\$ million
Profit from operations before tax and finance income/(costs)	237.1	173.9
Depletion and depreciation	244.6	305.9
Net foreign exchange (gains)/losses	(51.9)	(15.0)
Realised gain/(loss) on FX derivatives related to capital expenditure ⁽¹⁾	47.3	9.4
EBITDA	477.1	474.2

⁽¹⁾ Realised gains/losses on FX derivatives are recorded within cost of sales. Where the derivative hedges capital expenditure the gain/loss is added back when calculating EBITDA in order to reflect the underlying result of operating activities. Prior year EBITDA has been restated on a comparable basis by adding back realised gain/(loss) on FX derivatives related to capital expenditure of \$9.4 million.

EBITDA for the year ended 31 December 2016 was \$477.1 million, compared with \$474.2 million in 2015. Although increased production and lower operating costs have driven a higher EBITDA, this was partially offset by the impact of lower oil prices in 2016. The Group manages its exposure to oil prices by entering into commodity hedging contracts. This hedge portfolio contributed \$255.8 million to EBITDA in 2016 (2015: \$261.2 million).

Profit after tax, on a business performance basis, was \$121.5 million, compared with \$127.8 million in 2015. After re-measurements and exceptional items, the Group recorded a net profit of \$185.2 million, compared with a loss of \$759.5 million in 2015.

Reflecting the ongoing investments EnQuest has made to develop its assets, notably Kraken, EnQuest's net debt has increased from \$1.55 billion at the end of 2015 to \$1.80 billion at 31 December 2016.

	Net debt/(cash)	
	31 December	31 December
	2016	2015
	\$ million	\$ million
Bonds ¹	868.7	879.7
Credit Facility ¹	1,037.5	902.3
Tanjong Baram project finance facility ¹	24.9	35.0
Other loans ¹	40.0	-
Cash and cash equivalents	(174.6)	(269.0)
Net debt	1,796.5	1,548.0

¹ Stated excluding accrued interest and excluding the net-off of unamortised fees (refer note 19 to the consolidated financial statements).

As at 31 December 2016, total cash and undrawn facilities totalled \$330.9 million.

As a result of the continued capital investment, UK corporate tax losses at the end of the year increased to approximately \$2.9 billion. In the current environment, no material corporation tax or supplementary corporation tax is expected to be paid on UK operational activities. The Group paid cash corporate income tax on the Malaysian assets which will continue throughout the life of the production sharing contract.

Income Statement

Production and revenue

Production, on a working interest basis, increased by 9% to 39,751 Boepd, compared to 36,567 in 2015. This included a full year of production from Alma/Galia and Tanjong Baram, contributing 6,740 Boepd and 1,188 Boepd, respectively (2015: 1,083 Boepd and 373 Boepd, respectively). Productivity at Alma/Galia, which achieved first oil in October 2015, has been negatively impacted by well performance this year. Heather/Broom demonstrated strong production performance, contributing 5,948 Boepd (2015: 4,643 Boepd), resulting from increased water injection reliability and the continuing benefits of the 2015 wells workover programme. Scolty/Crathes, which achieved first oil in November 2016, has made a promising start, contributing 719 Boepd to annual production. Production at other fields was adversely affected by longer shutdowns than in 2015, including the impact of maintenance carried out on third party infrastructure taking longer than anticipated.

On average, oil prices in 2016 were lower than in 2015. The Group's blended average realised price per barrel of oil sold excluding hedging was \$44.3 for the year ended 31 December 2016, compared to \$50.9 during 2015. Revenue is predominantly derived from crude oil sales and for the year ended 31 December 2016 crude oil sales totalled \$577.8 million compared with \$634.3 million in 2015. The decrease in revenue was due to the lower oil price, offset partially by higher production. Revenue from the sale of condensate and gas was \$3.6 million (2015: \$1.9 million) and tariffs and other income generated \$12.4 million (2015: \$9.2 million).

The Group's commodity hedges and other oil derivatives generated \$255.8 million of realised income (2015: \$261.2 million). This includes \$31.2 million of non-cash amortisation of option premiums and \$2.5 million of hedge accounting gains deferred from 2015 (2015: \$111.6 million of non-cash amortisation of option premiums). The Group's average realised oil price after hedging was \$63.8 per barrel in 2016 compared with \$72.0 per barrel in 2015.

Revenue and other operating income also includes an unrealised loss of \$51.5 million recognised within exceptional items in respect of the unrealised mark to market loss on the Group's commodity contracts (2015: unrealised gain of \$1.9 million). This relates mainly to swap contracts in place at 31 December 2016 hedging 2017 production, where 6 MMBbls were hedged at an average fixed price of \$51 per bbl.

Cost of sales

Cost of sales, on a business performance basis, was as follows:

	Business performance	
	2016	2015
	\$ million	\$ million
Production costs	279.7	318.4
Tariff and transportation expenses	58.1	69.1
Realised loss/(gain) on FX derivatives related to operating costs	19.6	(6.2)
Operating costs	357.4	381.3
Realised loss on FX derivatives related to capital expenditure	47.3	9.4
Change in lifting position and inventory	2.8	28.5
Depletion of oil and gas assets	240.6	298.9
Other cost of sales	5.4	15.3
Cost of sales	653.5	733.4
	\$/bbl	\$/bbl
Operating cost per barrel⁽¹⁾		
-Production costs	20.4	23.4
-Tariff and transportation expenses	4.2	6.3
	24.6	29.7

⁽¹⁾ Calculated on a working interest basis

Business performance cost of sales was \$653.5 million for the year ended 31 December 2016 compared with \$733.4 million for 2015. Although production has increased year-on-year, operating costs decreased by \$23.9 million, reflecting EnQuest's ongoing cost saving initiatives and the benefit of a weaker sterling exchange rate, partially offset by an increase in realised losses on foreign currency derivatives of \$25.8 million. On a per barrel basis, the Group's average operating cost per barrel has decreased by 17% to \$24.6 per barrel, reflecting the cost reductions and foreign exchange benefits above, together with the impact of 9% higher production.

Cost of sales include realised losses on foreign currency derivatives related to capital expenditure of \$47.3 million, reflecting the significant devaluation of sterling against the US dollar since June 2016 (2015: loss of \$9.4 million).

The Group's overlift position decreased significantly during the year, primarily reflecting the unwind of the balances that had accrued at 31 December 2015 on Thistle and GKA. The impact of this movement on the change in lifting position recognised in cost of sales was offset by the impact higher oil prices on the valuation of the position at 31

December 2016 compared to 31 December 2015, resulting in an overall \$2.8 million expense in 2016 (2015: \$28.5 million).

Depletion expense of \$240.6 million was \$58.3 million lower than the prior year, reflecting the impact of impairments recognised for the year ended 31 December 2015 on the average depletion rate, which decreased from \$22.4 per barrel to \$16.6 per barrel, partially offset by the impact of increased production.

Other cost of sales, which principally include the supplemental payment due on profit oil in Malaysia, decreased by \$9.9 million, reflecting the impact of lower oil prices on the supplemental payment.

General and administrative expenses

General and administrative expenses were \$10.9 million during the year ended 31 December 2016, compared with \$14.4 million reported in 2015. The decrease reflects the benefit of the devaluation of sterling against the US dollar on UK costs and the recovery of overheads.

Other income and expenses

Other income of \$51.9 million almost entirely comprises net foreign exchange gains, which relate primarily to the revaluation of sterling denominated amounts in the balance sheet following the devaluation of sterling against the US dollar.

Taxation

The tax credit for the year ended 31 December 2016 of \$5.2 million (2015: \$129.3 million tax credit), excluding exceptional items, is primarily due to Ring Fence Expenditure Supplement on UK activities and the tax effect on foreign exchange gains.

Finance costs

Finance costs of \$122.2 million include \$110.5 million of bond and loan interest payable (2015: \$80.2 million), \$14.1 million unwinding of discount on provisions and liabilities (2015: \$22.3 million), \$36.5 million relating to the amortisation of premium on options designated as hedges of production (2015: \$70.0 million), \$5.9 amortisation of arrangement fees for the bank facilities and bonds (2015: \$7.3 million) and other financial expenses of \$10.5 million (2015: \$11.0 million), primarily commitment and letter of credit fees. The Group capitalised interest of \$55.3 million in relation to the interest payable on borrowing costs on its capital development projects, primarily the Kraken development (2015: \$14.4 million).

Finance income

Finance income of \$1.4 million includes \$0.3 million of bank interest receivable and \$1.0 million unwinding of the discounts on financial assets (2015: \$0.3 million and \$0.6 million, respectively).

Exceptional items

Exceptional items resulting in a net profit of \$101.0 million before tax have been disclosed separately for the year ended 31 December 2016. These mainly include a net reversal of impairments of \$147.9 million following the recovery of oil prices since last year, unrealised losses on commodity and foreign currency derivative contracts of \$22.0 million, a \$16.2 million loss on disposal of the Avalon asset, a \$22.9 million credit arising from the derecognition of an onerous contract provision for the Stena Spey drilling vessel, reflecting the contracted days having been utilised in full, and a \$3.4 million credit arising from the derecognition of a provision for contingent consideration in relation to the Eagle prospect, no longer expected to be payable. Exceptional items also include a \$38.1 million loss on extinguishment of the Group's credit facility as a result of the debt restructuring completed 21 November 2016, comprising the write-off of unamortised costs at the date of restructuring of \$15.0 million, plus the expensing of costs associated with the restructuring of the facility of \$23.1 million.

A tax charge of \$37.3 million has been presented as exceptional, comprising a tax charge of \$56.6 million relating to the tax impact of the above exceptional items and a tax credit of \$19.3 million related to the recognition of UK tax losses previously written off, offset by the decrease in the supplementary charge on UK oil and gas production to 10%, with effect from 1 January 2016, and the decrease in Petroleum Revenue Tax (PRT) to 0%, with effect from 1 January 2016.

Earnings per share

The Group's reported basic earnings per share was 22.7 cents for the year ended 31 December 2016 compared with loss per share of 98.0 cents for the year ended 31 December 2015. The Group's reported diluted earnings per share was 22.1 cents for the year ended 31 December 2016 compared with diluted loss per share of 98.0 cents for the year ended 31 December 2015.

Cash flow and liquidity

The Group's net cash flow from operating activities for the year ended 31 December 2016 was \$379.5 million compared with \$244.6 million for the same period last year. In part, this is due to the increased production and lower operating expenditure. Cash generated from operations also includes an inflow of \$198.8 million from commodity hedging and outflow of \$66.9 million from foreign exchange hedging (2015: inflow of \$68.6 million and inflow of \$3.2 million, respectively).

Net debt at 31 December 2016 amounted to \$1,796.5 million compared with net debt of \$1,548.0 million at 31 December 2015. The movement in net debt was as follows:

Net debt 1 January 2016	(1,548.0)
Net cash flows from operating activities	379.5
Cash capex ⁽¹⁾	(609.2)
Net interest and finance costs paid	(92.7)
Non-cash capitalisation of interest to principal of bonds and credit facility ⁽²⁾	(27.7)
Gross proceeds from issue of shares	101.6
Shares purchased by Employee Benefit Trust	(3.1)
Financial restructuring costs paid	(21.2)
Foreign exchange gain on cash and debt	28.7
Other	(4.4)
Net debt 31 December 2016	(1,796.5)

(1) Cash capex is stated net of proceeds from disposals of \$1.5 million

(2) Pursuant to the Restructuring, effective 21 November 2016, \$27.5 million of accrued, unpaid interest was capitalised and added to the principal of the high yield bond and \$0.2 million of accrued, unpaid interest was capitalised to the principal of the credit facility as an amount payable in kind ('PIK Amount') (refer note 19 of the consolidated financial statements).

It is anticipated that the underlying effective tax rate for 2017 will be below the UK statutory tax rate of 40%, excluding one-off exceptional tax items, due to UK tax reliefs and profits charged to tax at a lower rate in Malaysia. In the current environment and with the investment in the North Sea, the Group does not expect a material cash outflow for UK corporation tax on operational activities. This is due to the benefits from tax deductible first year capital allowances in the UK, available investment allowances and accumulated tax losses which are largely attributable to the Group's capital investment programme to date.

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

	Year ended 31 December 2016 \$ million	Year ended 31 December 2015 \$ million
North Sea development expenditure	592.2	677.4
Malaysia development expenditure	8.2	90.2
Exploration and evaluation capital expenditure	8.9	19.6
Other capital expenditure	1.4	39.4
Proceeds on disposal of Aberdeen office building	-	(68.4)
Other proceeds	(1.5)	(7.1)
	<u>609.2</u>	<u>751.1</u>

A total of \$428.8 million was spent during 2016 on the Kraken development, where the subsea installation programme has now been completed and excellent progress was made on the drilling programme. Other significant projects undertaken during the year included the completion of the Scolty/Crathes development, drilling of the K7 (AP6) well and workover of the K3Z (AP1) well at Alma/Galia and drilling the Eagle exploration well.

On 21 November 2016, the Company concluded a comprehensive financial restructuring comprising: amendments to the credit facility, high yield bond and retail bond; renewal of surety bond facilities; and a placing and open offer (the 'Restructuring'). The Restructuring significantly improved EnQuest's liquidity position and included the following measures:

- the placing and open offer resulted in the issue of, in aggregate, 356,738,114 new ordinary shares at an issue price of 23 pence per share and generated gross cash proceeds of \$101.6 million;
- \$176.3 million available for drawdown under the credit facility, as at the restructuring date, with maturity extended to October 2021, the amortisation profile amended and certain financial covenants relaxed;
- accrued, unpaid interest on the high yield bond as at the restructuring date of \$27.5 million was capitalised and added to the principal amount of the bond;
- future interest payments due on the both retail and high yield bonds will only be payable in cash where the average prevailing oil price (dated Brent future, as published by Platts) for the six month period immediately preceding the day which is one month prior to the relevant interest payment date being at least \$65 per barrel; otherwise interest payable is capitalised to principal, repayable at maturity; and
- option exercisable by the Company to extend the maturity date of the high yield bond and retail bond from April 2022 to April 2023 with a further automatic extension of the maturity date to October 2023 if the credit facility is not fully repaid or refinanced by October 2020.

EnQuest has assessed that the Restructuring has resulted in a substantial modification of the terms of its credit facility. Accordingly, extinguishment accounting has been applied, resulting in the derecognition of the carrying value of the facility, including unamortised arrangement fees of \$15.0 million, and the recognition of a new financial liability for the revised facility at fair value. Costs of \$23.1 associated with the renegotiation of the facility have been expensed to the income statement as exceptional finance costs.

The impact of the Restructuring on the high yield bond and retail bond has been assessed as not being substantial, resulting in \$5.9 million of costs associated with the renegotiation of the bonds being deducted from the carrying values of the bond liabilities in the balance sheet. These costs, along with previous unamortised arrangement fees, will be amortised to the income statement over the revised term of the bonds.

The Group has remained in compliance with financial covenants under its debt facilities throughout the period and managing ongoing compliance remains a priority.

Balance Sheet

The Group's total asset value has increased by \$148.7 million to \$3,926.0 million at 31 December 2016 (2015: \$3,777.3 million).

Property, plant and equipment

Property, plant and equipment ('PP&E') has increased to \$2,963.4 million at 31 December 2016 from \$2,436.7 million at 31 December 2015.

The increase of \$526.7 million is composed of additions to PP&E of \$632.5 million, acquisitions of \$40.7 million in respect of additional interests in the Kraken and West Don fields acquired from First Oil, an additional \$26 million in respect primarily of the Kraken contingent carry recognised during the year, a decrease of \$74.8 million for net changes in estimates for decommissioning, the KUFPEC cost recovery provision and other provisions, offset by depletion and depreciation charges of \$245.8 million. In addition, the recovery of the oil price since last year, together with the positive impact on the Group's North Sea cost base of the weakening of the GBP/USD rate, has led to a net reversal of \$147.9 million of impairments booked in the prior year.

The PP&E capital additions during the period, including capitalised interest, are set out in the table below:

	Year ended 31 December 2016 \$ million
Kraken	476.6
Scolty/Crathes	76.4
Thistle	18.5
Alma/Galia	49.1
Other North Sea	7.5
Malaysia	4.4
	632.5

Intangible oil and gas assets

Intangible oil and gas assets increased to \$50.3 million at 31 December 2016 from \$46.5 million at 31 December 2015. The increase of \$3.8 million comprises additions of \$18.8 million, disposals of \$17.6 million relating to the Avalon discovery, which was sold for \$1.5 million, an increase of \$3.6 million for change in decommissioning provision and write-offs, impairments and other movements of \$2.0 million. Additions mainly relate to the Eagle exploration well, drilled on a 100% working interest basis in the Greater Kittiwake Area. The Eagle well has been confirmed as a discovery and further assessment of the results are underway.

Trade and other receivables

Trade and other receivables have decreased by \$149.2 million to \$202.7 million at 31 December 2016 compared with \$351.9 million at 31 December 2015. The decrease relates mainly to capital expenditure related prepayments, which are capitalised based on the timing of work performed, a decrease in trade receivables due to the timing of crude oil sales and other working capital movements.

Cash and net debt

The Group had \$174.6 million of cash and cash equivalents at 31 December 2016 and \$1,796.5 million of net debt (2015: \$269.0 million and \$1,548.0 million, respectively). Net debt* comprises the following liabilities:

- \$191.3 million principal outstanding on the £155 million retail bond;
- \$677.5 million principal outstanding on the high yield bond, including capitalised interest of \$27.5 million pursuant to the Restructuring;
- \$1,037.5 million carrying value of credit facility, comprising amounts drawn down of \$1,037.3 and interest of \$0.2 million capitalised as an amount payable in kind ('PIK Amount');
- \$40.0 million loan facility drawn down from a trade creditor during the year; and
- \$24.9 million principal outstanding on the Tanjung Baram project finance facility.

* Net debt excludes accrued interest and the net-off of unamortised fees (refer note 19 to the consolidated financial statements).

Provisions

The Group's decommissioning provision decreased by \$12.9 million to \$493.9 million at 31 December 2016 (2015: \$506.8 million). The movement is explained by additions of \$49.8 million for Kraken, Scolty/Crathes and Eagle based on drilling and development carried out during the period, \$15.2 million arising from the acquisition of additional interests in the Kraken and West Don fields, reductions of \$6.4 million for decommissioning carried out during the year and \$82.2 million due to changes in estimates, including the impact of the devaluation of sterling against the US dollar, partially offset by \$10.7 million unwinding of discount.

A liability of \$26.6 million was provided for at 30 June 2016 following an independent reserves determination to assess the contingent consideration payable for Kraken, with a corresponding addition recorded in PP&E. Following payments made during the second half of the year, \$5.5 million remained outstanding at 31 December 2016.

An onerous contract provision of \$22.9 million for the Stena Spey drilling vessel was derecognised during the period, as the contracted days were utilised fully.

Income tax

The Group had no UK corporation tax or supplementary corporation tax liability at 31 December 2016, which remains unchanged from 31 December 2015. The income tax asset at 31 December 2016 represents UK corporation tax receivable in relation to non-upstream activities and the income tax payable is in relation to the activity in Malaysia.

Deferred tax

The Group's net deferred tax asset has increased from \$79.3 million at 31 December 2015 to \$191.7 million at 31 December 2016. This movement includes the re-recognition of deferred tax assets totalling \$48.8 million, following the improvement in the forecast profitability of the Group, a reduction in deferred tax assets of \$29.5 million due to the reduction in the statutory PRT rate and the reduction in supplementary charge on UK oil and gas production, a reduction in deferred tax liability on realised hedges of \$134.1 million and an increase in deferred tax liabilities of \$73.8 million due to write back of previously impaired assets. Total UK tax losses carried forward at the year-end amount to approximately \$2,893.7 million.

Trade and other payables

Trade and other payables have decreased to \$452.8 million at 31 December 2016, of which \$42.6 million are payable after more than one year (2015: \$543.5 million, all payable within one year). The decrease mainly reflects the settlement of invoices for capital expenditure at Kraken and Scolty/Crathes, for which payment was previously deferred in accordance with supplier agreements. Remaining deferred amounts at 31 December 2016 of \$176.8 million are contractually due for settlement in instalments over 2017 and 2018.

Other financial liabilities

Other current financial liabilities have increased by \$35.1 million to \$44.3 million. The increase relates primarily to mark-to-market movements on commodity derivatives hedging 2017 production.

Other non-current financial liabilities of \$19.7 million (2015: \$7.7 million) relate mainly to waiver fees payable to credit facility lenders and also to the Group's liability to carry PETRONAS Carigali for its share of exploration or appraisal well commitments in relation to the PM8/Seligi asset in Malaysia.

Financial Risk Management

Oil price

The Group is exposed to the impact of changes in Brent crude oil prices on its revenue and profits. EnQuest's policy is to manage the impact of commodity prices to protect against volatility and allow availability of cash flow for reinvestment in capital programmes that are driving business growth.

During 2015 the Group entered into commodity hedging contracts to hedge a portion of its 2016 production against fluctuations in oil prices. This included bought put options over 8 MMbbls with an average strike price of \$68 per barrel and oil swap contracts to sell 2 MMbbls at an average fixed price of \$67 per barrel. These contracts, to which hedge accounting was applied, matured over the course of 2016 and realised \$237.2 million of revenue and operating income. A gain of \$2.5 million generated in 2015, which had been deferred in the cash flow hedge reserve at 31

December 2015 to match the timing of the underlying production being hedged, was also recognised as realised revenue and operating income in 2016.

At 31 December 2016, the Group's commodity derivative contracts included swap contracts to sell 6 MMbbls at an average fixed price of \$51 per barrel, maturing through 2017. The Group has elected not to apply hedge accounting to these contracts, which had a negative fair value and generated an unrealised mark to market loss of \$40.5 million, recognised in revenue and other operating income.

Outside of its core hedge portfolio, during 2016 the Group also entered into call options, swaps contracts and futures, accounted for at fair value through profit or loss, which generated \$7.6 million of revenue and other operating income.

Finance costs of \$5.4 million have been recognised, representing the movement in the time value of put options which have been designated as effective hedges of production.

Foreign exchange

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. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 70% of the non-US Dollar portion of the Group's annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. The Group has hedged its exposures to Sterling, Norwegian Kroner and the Euro in line with this policy.

For the year ended 31 December 2016, the Group's foreign currency hedging portfolio realised a loss of \$66.9 million, recognised within cost of sales, of which \$19.6 million related to hedges of operating expenditure and \$47.3 million related to hedges of capital expenditure. The loss arose principally in relation to contracts to purchase sterling, which devalued significantly against the dollar from June 2016 onwards. Changes in the fair value of these contracts also resulted in an unrealised credit of \$7.8 million to cost of sales.

At 31 December 2016, the Group had foreign exchange forward contracts in place over NOK37.1 million at a fixed rate of NOK7.82/\$. These contracts had a negative net fair value of \$0.5 million at 31 December 2016 and expire during the first half of 2017.

In the first half of 2016, the Group entered into a chooser structure covering the first half of 2017. The counterparty can choose to sell £47.5 million to EnQuest at an exchange rate of \$1.4:£1.0 or purchase 1,320,000 barrels of oil at \$58/bbl. The contract had a negative fair value of \$9.3 million at 31 December 2016. Subsequent to year-end, the Group entered into a similar chooser contract covering the second half of 2017 where the counterparty can choose to sell £66.0 million to EnQuest at an exchange rate of \$1.2:£1.0 or purchase 1,500,000 barrels of oil at \$60 per barrel.

EnQuest continually reviews its currency exposures and when appropriate looks at opportunities to enter into foreign exchange hedging contracts.

Surplus cash balances are deposited as cash collateral against in-place letters of credit as a way of reducing interest costs. Otherwise 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.

Going Concern

The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner.

On 21 November 2016, EnQuest announced a restructuring which comprised the implementation of the RCF Amendments, the Note Amendments, the renewal of the Surety Bond Facilities and the completion of a Placing and Open Offer (collectively 'the Restructuring').

The completion of the Restructuring provides the Group with a more stable and sustainable capital structure, reduced cash debt service obligations and greater liquidity. These will all contribute to ensuring that the Group is in a stronger position to pursue its strategy of targeting mature and marginal oil assets and its focus on cost efficiency during a prolonged period of low oil prices. In particular, the Restructuring enables the Group to complete the Kraken project.

Following the significant decline in oil prices from late 2014, management has continued to take action to implement cost saving programmes to reduce planned operational expenditure, general and administrative spend and capital expenditure in 2017 and 2018.

At year end, the Group had available cash and bank facilities of \$330.9 million and headroom on its related financial covenants under the RCF Amendments. The Group's forecasts and projections take into account the actions described in the preceding paragraph, and reflect the assumption that the Group's major projects remain on track.

This going concern assessment is prepared on the basis that the Facility providers continue to provide access to funding for the duration of the period under review. The Group's business plan (base case) which underpins this assessment assumes Kraken first oil in Q2 2017 and uses an oil price assumption of \$55/bbl throughout 2017, and \$60/bbl in the first quarter of 2018 and this has been further stressed tested under a plausible downside case (downside case) as described in the Viability statement. The Directors consider the base case and downside case to be an appropriate basis on which to make their assessment.

The base case and downside case indicate that the Company will be able to operate within the headroom of its existing borrowing facilities for 12 months from the date of approval of the Annual Report and Accounts. Should there be any potential covenant breaches the Directors are confident that such breaches would be avoided or remedied either by either executing other funding options or asset sales (mitigating actions) or obtaining waivers and/or consents from the Facility providers in order to ensure that the Facility remains available. The Directors believe that the mitigating actions would be achievable in the necessary timeframe or, if required, that the waivers and/or consents would be forthcoming.

The Directors therefore continue to adopt the going concern basis in preparing the financial statements.

Viability assessment

The Directors have assessed the viability of the Group over a three-year period to March 2020. This assessment has taken into account the Group's financial position as at March 2017, the future projections and the principal risks and uncertainties. The Directors' approach to risk management, their assessment of the Group's principal risks and uncertainties, and the actions management are taking to mitigate these risks, are outlined in the Risks and Uncertainties section of this announcement.

The period of three years is deemed appropriate as it provides a sufficient time horizon to assess the performance of the Kraken project and covers the period within which the Group's Facility will be due to be partly repaid or refinanced.

Based on the Group's projections, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020.

The Group's business plan process has underpinned this assessment and has been used as the base case. The business plan process takes account of the Group's principal risks and uncertainties, and has further been stress tested to understand the impact on the Group's liquidity and financial position of reasonably possible changes in these risks and/or assumptions.

This also assumes that the Facility providers will continue to provide access to sufficient funding for the duration of the three year period under review. The forecasts which underpin this assessment use the same oil price assumption as for the Going Concern assessment with a longer term price assumption for the viability statement being aligned to the current forward curve. The base case reflects significant steps already underway to reduce operating and capital expenditure in light of continuing lower oil prices. The position is consistent with the statement made at the time of the restructuring that if oil prices were to stay at the levels at that time of approximately \$50 per barrel or if oil prices were to decline, it is highly likely that the Company would be unable to return any value to its shareholders.

The Directors draw attention to the specific risks and uncertainties identified below, which, individually or collectively, could have a material impact on the Group's viability during the period of review. In forming this view, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. The impact of these risks and uncertainties, including their combined impact, has been reviewed by the Directors and the effectiveness and achievability of the potential mitigating actions have been considered.

- **Oil price volatility**

To mitigate oil price volatility, the Directors hedged 6 MMbbls of 2017 production at an average price of \$51 per barrel. As further mitigation the Directors, in line with Group policy, will continue to pursue hedging at the appropriate time and price.

- **Project execution**

The Group's planned capital expenditure during the three year period covered by the viability assessment principally relates to the remaining expenditure to first oil on the Kraken development (which remains on track) and the future phases of the drilling programme on Kraken. Much of this expenditure has been contracted under fixed price lump sum contracts, therefore there is limited risk that this capital expenditure could exceed that projected and/or that commissioning of projects, in particular Kraken, could occur later than projected.

The Directors and management team monitor project progress against key milestones and ensure timely intervention as appropriate.

- **Access to funding**

The Directors recognise the importance of ensuring medium term liquidity and in particular to protect against potential future declines in the oil price. EnQuest has a diversified funding structure and, following the Restructuring, it has a committed \$1.125 billion Tranche A Term Loan and a further Tranche B \$75 million Revolving Credit Facility. Repayment of the Facility commences in April 2018 with the final repayment due in October 2021. In addition, the maturity dates of the \$650 million High Yield Bond and the £155 million Retail Notes have been amended to April 2022, with an option exercisable by the Company (at its absolute discretion) to extend the maturity date by one year and an automatic further extension of the maturity date to October 2023 if the Existing RCF is not fully repaid or refinanced by October 2020. A further condition to the payment of interest in cash is based on, amongst other things, the average prevailing oil price (dated Brent future (as published by Platts)) for the six month period immediately preceding the day which is one month prior to the relevant interest payment date being at least \$65/bbl; otherwise interest payable is to be capitalised.

Should there be any potential covenant breaches, the Directors are confident that such breaches would be avoided or remedied by either executing other funding options or asset sales (mitigating actions) or obtaining waivers and/or consents from the Facility providers in order to ensure that the Facility remains available.

The Directors believe that the mitigating actions would be achievable in the necessary timeframe or, if required, that the waivers and/or consents would be forthcoming.

In conducting the viability review, these risks have been taken into account in the stress testing performed on the base case described above.

Specifically the base case has been subjected to stress testing by considering the impact of the following plausible downside risks:

- a 10% discount to the oil price forward curve;
- a 5% reduction in production (excluding Kraken as this is already risked in the base case); and
- a 5% increase in operating costs except for fixed costs related to the Kraken FPSO.

A scenario has been run illustrating the impact of the above risks on the base case. This plausible downside case indicates the need for mitigating actions to be undertaken for the Group to be viable in the three year period.

In light of this, the Directors are also pursuing a number of mitigations to improve medium term liquidity. These options include but are not limited to:

- asset sales; and
- other funding options.

The Directors believe that there are a number of options available to them and that only a small number of the potential assets sales or funding options would need successfully to be executed in order for the Group to remain viable for the three year period.

The Group would also seek to modify or temporarily waive existing covenants and loan amortisation should the need arise. The lenders continue to be supportive as demonstrated by the recent Restructuring. There is also regular dialogue with lenders to ensure that they remain informed of progress on the key projects and operations and the projections underpinning the liquidity position.

Having reviewed the Group's financial position as at March 2017, the future projections, the principal risks and uncertainties and the mitigating actions, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020 and therefore support this viability statement.

KEY PERFORMANCE INDICATORS

	2016	2015	2014
North Sea Lost Time Incident Frequency ('LTIF')	0.82	2.14	0.00
Malaysia LTIF	0.00	0.00	N/A
Production (Boepd)	39,751	36,567	27,895
Net 2P reserves (MMboe)	215	203	220
Business performance data:			
Revenue and other operating income ¹ (\$ million)	849.6	906.6	1,009.9
Realised blended average oil price per barrel ¹ (\$)	63.8	72.0	103.9
Opex per barrel (production and transportation costs) (\$)	24.6	29.7	42.1
EBITDA ² (\$ million)	477.1	474.2	552.1
Cash capex ³ on property, plant and equipment oil and gas assets (\$ million)	609.2	751.1	1,058.2
Reported data:			
Cash generated from operations (\$ million)	408.3	221.7	632.2
Net debt (\$ million)	1,796.5	1,548.0	967.0

1 Including revenue of \$255.8 million in 2016 associated with EnQuest's oil price hedges (2015: \$261.2 million, 2014: \$31.7 million).

2 EBITDA is calculated on a business performance basis, and is calculated by taking profit/loss from operations before tax and finance income/(costs) and adding back depletion, depreciation, foreign exchange movements and the realised gains/loss on foreign currency derivatives related to capital expenditure. EBITDA for prior periods has been restated on a comparable basis by adding back realised gain/(loss) on foreign currency derivatives related to capital expenditure (2015: loss of \$9.4 million, 2014: gain of \$28.9 million).

3 Net of proceeds from disposal of \$1.5 million (2015: \$75.5 million, 2014: \$2.2 million).

OIL AND GAS RESERVES AND RESOURCES
At 31 December 2016

	UKCS		Other Regions		Total
	MMboe	MMboe	MMboe	MMboe	MMboe
Proven and Probable Reserves (notes 1,2,3 and 6)					
At 31 December 2015		187		16	203
Revisions of previous estimates		9		3	11
Discoveries, extensions and additions					
Acquisitions and disposals (note 7)		14			14
Production					
Export Meter	(11)		(3)		
Volume Adjustments (note 5)	0		1		
Production during period:		(11)		(2)	(13)
Total at 31 December 2016 (note 8)		199		17	215
Contingent Resources (notes 1,2 and 4)					
At 31 December 2015		94		52	146
Revisions of previous estimates		3		3	6
Discoveries, extensions and additions		7			7
Acquisitions (note 7)		5			5
Disposals (note 7)		(10)			(10)
Promoted to Reserves		(4)			(4)
Total Contingent Resources at 31 December 2016		95		55	151

Notes:

- (1) Reserves are quoted on a net entitlement basis, resources are quoted on a working interest basis.
- (2) Proven and probable reserves and contingent resources have been assessed by the group's internal reservoir engineers, utilising geological, geophysical, engineering and financial data.
- (3) The group's proven and probable reserves have been audited by a recognised Competent Person in accordance with the definitions set out under the 2007 Petroleum Resources Management System and supporting guidelines issued by the Society of Petroleum Engineers.
- (4) Contingent resources relate to technically recoverable hydrocarbons for which commerciality has not yet been determined and are stated on a best technical case or "2C" basis.
- (5) Correction of export to sales volumes.
- (6) All UKCS volumes are presented pre SVT value adjustment.
- (7) Equity increased to 70.50% in Kraken and 78.60% in West Don. Contingent Resources: Relinquished Shelterstone and exited Avalon.
- (8) The above proven and probable reserves include 10.4 MMboe that will be consumed as lease fuel on the Alma and Kraken FPSOs and fuel gas on Heather, Broom, West Don, Don SW, Conrie & Ythan.
- (9) The above table excludes Tanjong Baram in Malaysia.

EnQuest PLC

GROUP STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2016

	Notes	2016			2015		
		Business performance US\$'000	Re-measurements, and exceptional items (note 4) US\$'000	Reported in year US\$'000	Business performance US\$'000	Re-measurements and exceptional items (note 4) US\$'000	Reported in year US\$'000
Revenue and other operating income	5(a)	849,627	(51,504)	798,123	906,582	1,932	908,514
Cost of sales	5(b)	(653,518)	(2,848)	(656,366)	(733,408)	(15,130)	(748,538)
Gross profit/(loss)		196,109	(54,352)	141,757	173,174	(13,198)	159,976
Exploration and evaluation expenses	5(c)	(68)	(776)	(844)	(325)	(9,059)	(9,384)
Impairment reversal/(charge) to investments	4	-	48	48	-	(566)	(566)
Net impairment reversal/(charge) to oil and gas assets	4	-	147,871	147,871	-	(1,224,463)	(1,224,463)
Loss on disposal of land and buildings	4	-	-	-	-	(8,473)	(8,473)
Loss on disposal of intangible oil and gas assets	4	-	(16,178)	(16,178)	-	(2,264)	(2,264)
General and administration expenses	5(d)	(10,890)	-	(10,890)	(14,371)	(3,611)	(17,982)
Other income	5(e)	51,936	31,506	83,442	15,431	1,936	17,367
Other expenses	5(f)	(9)	(118)	(127)	-	(29,635)	(29,635)
Profit/(loss) from operations before tax and finance income/(costs)		237,078	108,001	345,079	173,909	(1,289,333)	(1,115,424)
Finance costs	6	(122,232)	(7,043)	(129,275)	(176,384)	(50,097)	(226,481)
Finance income	6	1,440	-	1,440	964	-	964
Profit/(loss) before tax		116,286	100,958	217,244	(1,511)	(1,339,430)	(1,340,941)
Income tax	7	5,224	(37,256)	(32,032)	129,328	452,128	581,457
Profit/(loss) for the year attributable to owners of the parent		121,510	63,702	185,212	127,817	(887,302)	(759,484)
Other comprehensive income							
Items that may be reclassified to profit or loss:							
Fair value gains/(losses) on cash flow hedges				(29,048)			356,540
Transfers to profit or loss of cash flow hedges				(239,565)			(244,445)
Transfers to balance sheet of cash flow hedges				278			-
Deferred tax on cash flow hedges	7			134,177			(37,283)
Other comprehensive income for the year, net of tax				(134,158)			74,812
Total comprehensive income for the year, attributable to owners of the parent				51,054			(684,672)
Earnings per share	8						
Basic		US\$		US\$	US\$		US\$
Diluted		0.149		0.227	0.165		(0.980)
		0.145		0.221	0.165		(0.980)

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

EnQuest PLC

GROUP BALANCE SHEET At 31 December 2016

	Notes	2016 US\$'000	2015 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	2,963,446	2,436,672
Goodwill	11	189,317	189,317
Intangible oil and gas assets	12	50,332	46,530
Investments	13	171	123
Deferred tax assets	7	206,742	138,525
Other financial assets	20	23,429	15,262
		3,433,437	2,826,429
Current assets			
Inventories	14	74,985	67,629
Trade and other receivables	15	202,666	351,873
Current tax receivable		925	3,666
Cash and cash equivalents	16	174,634	269,049
Other financial assets	20	39,342	258,692
		492,552	950,909
TOTAL ASSETS		3,925,989	3,777,338
EQUITY AND LIABILITIES			
Equity			
Share capital	17	208,639	113,433
Merger reserve		662,855	662,855
Cash flow hedge reserve		41	134,199
Share-based payment reserve		(6,602)	(11,995)
Retained earnings		(46,081)	(231,293)
TOTAL EQUITY		818,852	667,199
Non-current liabilities			
Borrowings	19	1,052,075	907,073
Bonds	19	855,739	870,281
Provisions	22	584,266	686,577
Trade and other payables	23	42,587	-
Other financial liabilities	20	19,767	7,684
Deferred tax liabilities	7	15,027	59,198
		2,569,461	2,530,813
Current liabilities			
Borrowings	19	49,601	10,150
Bonds	19	-	12,319
Obligations under finance leases	24	-	36
Provisions	22	30,041	-
Trade and other payables	23	410,261	543,518
Other financial liabilities	20	44,274	9,169
Current tax payable		3,499	4,134
		537,676	579,326
TOTAL LIABILITIES		3,107,137	3,110,139
TOTAL EQUITY AND LIABILITIES		3,925,989	3,777,338

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

The financial statements were approved by the Board of Directors on 20 March 2017 and signed on its behalf by:

Jonathan Swinney
Chief Financial Officer

EnQuest PLC

GROUP STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2016

	<i>Share capital US\$'000</i>	<i>Merger reserve US\$'000</i>	<i>Cash flow hedge reserve US\$'000</i>	<i>Share- based payments reserve US\$'000</i>	<i>Retained earnings US\$'000</i>	<i>Total US\$'000</i>
At 1 January 2015	113,433	662,855	59,387	(17,696)	528,191	1,346,170
Loss for the year	-	-	-	-	(759,484)	(759,484)
Other comprehensive income	-	-	74,812	-	-	74,812
Total comprehensive income for the year	-	-	74,812	-	(759,484)	(684,672)
Share-based payment	-	-	-	5,701	-	5,701
At 31 December 2015	113,433	662,855	134,199	(11,995)	(231,293)	667,199
Profit for the year	-	-	-	-	185,212	185,212
Other comprehensive income	-	-	(134,158)	-	-	(134,158)
Total comprehensive income for the year	-	-	(134,158)	-	185,212	51,054
Issue of share capital, net of expenses	95,206	-	-	-	-	95,206
Share-based payment	-	-	-	8,452	-	8,452
Shares purchased on behalf of Employee Benefit Trust	-	-	-	(3,059)	-	(3,059)
At 31 December 2016	208,639	662,855	41	(6,602)	(46,081)	818,852

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

EnQuest PLC

GROUP STATEMENT OF CASH FLOWS For the year ended 31 December 2016

		2016 US\$'000	2015 US\$'000
	<i>Notes</i>		
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	30	408,247	221,694
Cash received on sale of financial instruments		(14,541)	29,571
Decommissioning spend	22	(6,355)	(5,342)
Income taxes paid		(7,890)	(1,370)
Net cash flows from operating activities		379,461	244,553
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(601,696)	(806,965)
Purchase of intangible oil and gas assets		(8,928)	(19,600)
Proceeds from disposal of land and buildings		-	68,425
Proceeds from disposal of intangible oil and gas assets		1,466	7,065
Acquisitions	29	-	(3,000)
Interest received		422	419
Net cash flows used in investing activities		(608,736)	(753,656)
FINANCING ACTIVITIES			
Gross proceeds from issue of shares		101,628	-
Share issue and debt restructuring costs paid		(21,152)	-
Shares purchased by Employee Benefit Trust		(3,059)	-
Proceeds from bank facilities		174,997	736,058
Repayment of bank facilities		(10,150)	(48,491)
Repayment of obligations under finance leases		(35)	(35)
Interest paid		(83,207)	(76,120)
Other finance costs paid		(9,842)	(15,191)
Net cash flows from financing activities		149,180	596,221
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(80,095)	87,118
Net foreign exchange on cash and cash equivalents		(9,385)	(1,510)
Cash and cash equivalents at 1 January		257,540	171,932
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		168,060	257,540
Reconciliation of cash and cash equivalents			
Cash and cash equivalents per statement of cash flows		168,060	257,540
Restricted cash	16	6,574	11,509
Cash and cash equivalents per balance sheet		174,634	269,049

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

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS For the year ended 31 December 2016

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 principal activities of the Company and its subsidiaries (together the “Group”) are the exploration for, and extraction and production of, hydrocarbons in the UK Continental Shelf and Malaysia.

The Group’s financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 20 March 2017.

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

2. Summary of significant accounting policies

Basis of preparation

Whilst the financial information in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretation Committee (IFRIC) interpretations adopted for use by the European Union, with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and with the requirements of the United Kingdom Listing Authority (UKLA) Listing Rules, this announcement does not contain sufficient information to comply with IFRS. The Group will publish full financial statements that comply with IFRS in April 2017. The financial information for the year ended 31 December 2016 does not constitute statutory accounts as defined in sections 435 (1) and (2) of the Companies Act 2006. Statutory accounts for the year ended 31 December 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company’s annual general meeting. The auditor has reported on these accounts; their reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2016.

The Group financial information has been prepared on an historical cost basis, except for the fair value remeasurement of certain financial instruments, including derivatives, as set out in the accounting policies below. 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.

The financial statements have been prepared on the going concern basis. Further information relating to the use of the going concern assumption is provided in the “Going Concern” section of the Financial Review.

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.

Joint arrangements

Oil and gas operations are usually conducted by the Group as co-licensees in unincorporated joint operations 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 operation applicable to the Group’s interests.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the gain is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss, or as a change to other comprehensive income (OCI). If the contingent consideration is not within the scope of IAS 39, it is measured at fair value in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

New standards and interpretations

The Group has adopted new and revised IFRS's that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2016. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

Amendments to IFRS 11 Joint Arrangements for Acquisition of Interests

The amendments to IFRS 11 require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply the principles for business combinations accounting in IFRS 3. In addition, the acquirer shall disclose the information required by IFRS 3 for business combinations. The amendments clarify that a previously held interest in a joint operation is not re-measured when an additional interest in the same joint operation is acquired, as long as joint control is retained.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively for annual periods beginning on or after 1 January 2016. In August 2016, the Group acquired an additional interest in the West Don field. The Group considers that the activity of this joint arrangement constitutes a business and therefore has accounted for the acquisition of this additional interest in accordance with the business combinations principles of IFRS 3 (see note 29). Otherwise, these amendments did not have any material impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments did not have any material impact on the Group given that the Group does not use a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014 Cycle

The improvements were adopted with effect from 1 January 2016 and did not have any material impact on the Group.

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 financial statements in the period of initial application.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurement of financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. It replaces the previous leases standard IAS 17 Leases and is effective from 1 January 2019.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases, as is required under IAS 17 and, instead, introduces a single lease accounting model. The Group will assess the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

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, development and production of oil and gas assets. 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 oil and gas assets, goodwill and the estimate of the cost recovery provision

Determination of whether oil and gas assets or goodwill have suffered any impairment requires an estimation of the fair value less costs to dispose of the cash-generating units (CGU) to which oil and gas assets and goodwill have been allocated. The calculation requires the entity to estimate the future cash flows expected to arise from the CGU using discounted cashflow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy). Key assumptions and estimates in the impairment models relate to: commodity prices that are based on forward curve prices for the first three years and thereafter at US\$70 per barrel inflated at 2% per annum from 2020; discount rates derived from the Group's post-tax weighted average cost of capital of 10% (2015: 8.5%); commercial reserves and the related cost profiles. As the production and related cashflows can be estimated from EnQuest's experience, management believes that the estimated cashflows expected to be generated over the life of each field is the appropriate basis upon which to assess goodwill and individual assets for impairment.

These same models and assumptions are used in the calculation of the cost recovery provision (refer note 22).

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

The Group determines the fair value of property, plant and equipment acquired in a business combination 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 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 forward curve followed by an oil price assumption representing management's view of the long term oil price.

Decommissioning provision

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

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

In estimating decommissioning provisions, the Group applies an annual inflation rate of 2% (2015: 2%) and an annual discount rate of 2.3% (2015: 3%).

Debt restructuring

EnQuest has assessed that Group's debt restructuring, effective 21 November 2016, has resulted in a substantial modification of the terms of its Revolving Credit Facility (refer note 20). Accordingly, extinguishment accounting has been applied, resulting in the derecognition of the carrying value of the facility, including any unamortised arrangement fees, and the recognition of a new financial liability for the revised facility at fair value. Costs associated with the renegotiation of the facility have been expensed to the income statement as exceptional finance costs (refer note 4).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

Going concern

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

The going concern assumption is highly sensitive to economic conditions. The Group closely monitors and manages its funding position and liquidity risk throughout the year including monitoring forecast covenant results to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, changes in crude oil prices (adjusted for hedging undertaken by the Group), production rates and development project timing and costs. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner. See the Financial Review for further details.

Taxation

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

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 (US\$), 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 profit and loss in the statement of comprehensive income.

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	20%
Fixtures and fittings	10%
Long leasehold land	period of lease

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

No depreciation is charged on assets under construction.

Oil and gas assets

Exploration and appraisal assets

The Group adopts the successful efforts method of accounting for exploration and evaluation costs. Pre-licence costs are expensed in the period in which they are incurred. Expenditure directly associated with exploration, evaluation or appraisal activities is initially capitalised as an intangible asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written off as exploration and evaluation expenses in the statement of comprehensive income. When exploration licences are relinquished without further development, any previous impairment loss is reversed and the carrying costs are written off through the statement of comprehensive income. When assets are declared part of a commercial development, related costs are transferred to property, plant and equipment. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the statement of comprehensive income.

Development assets

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

Farm-outs - in the exploration and evaluation phase

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

Farm-outs - outside the exploration and evaluation phase

In accounting for a farm-out arrangement outside the exploration and evaluation phase, the Group:

- derecognises the proportion of the asset that it has sold to the farmee;
- recognises the consideration received or receivable from the farmee, which represents the cash received and/or the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor and/or any deferred consideration;
- recognises a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. A gain is only recognised when the value of the consideration can be determined reliably. If not, then the Group accounts for the consideration received as a reduction in the carrying amount of the underlying assets; and
- tests the retained interests for impairment if the terms of the arrangement indicate that the retained interest may be impaired.

The consideration receivable on disposal of an item of property, plant and equipment or an intangible asset is recognised initially at its fair value by the Group. However, if payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue. Any part of the consideration that is receivable in the form of cash is treated as a financial asset and is accounted for at amortised cost.

Carry arrangements

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

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 tangible and intangible 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 of disposal 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 post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

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. Impairment losses relating to goodwill cannot be reversed in future periods.

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 of disposal.

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 transaction 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 timeframe established by regulation or convention in the marketplace (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. 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, including commodity and foreign exchange derivatives, are stated at fair value, with any gains or losses arising on remeasurement recognised immediately in the income statement.

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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

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 but through other comprehensive income. 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 other comprehensive income 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 other comprehensive income is transferred to profit and loss when the forecast transaction which was the subject of the hedge occurs.

Where put options are used as hedging instruments, only the intrinsic value of the option is designated as the hedge, with the change in time value recorded in finance costs within the income statement.

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 within "Re-measurements and exceptional items" profit or loss on the face of the income statement. When a derivative reaches maturity, the realised gain or loss is included within the Group's business performance results with a corresponding reclassification from "Remeasurements and exceptional items".

Option premium

Option premium received or paid for commodity derivatives are amortised into business performance revenue over the period between the inception of the option, and that options expiry date. This results in a corresponding reclassification from "Remeasurements and exceptional items" revenue.

As noted above, where put options are designated as an effective hedge, the change in time value is recorded in finance costs. As the cost of a put option represents the initial time value of that option, option premium paid for put options which have been designated as effective hedges are amortised in business performance finance costs, with an offsetting reclassification from "Remeasurements and exceptional items" finance costs.

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 an average cost basis. Inventories of hydrocarbons are stated at the lower of cost and net realisable value.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

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. The merger reserve in the Group financial statements also includes 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 profit or loss.

Available-for-sale reserve

Gains and losses (with the exception of impairment losses) arising from changes in available-for-sale financial investments are recognised in the available-for-sale reserve until such time that the investment is disposed of, where it is reclassified to profit or loss.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss. IAS 39 Financial Instruments: Recognition and Measurement regards the terms of exchanged or modified debt as 'substantially different' if the net present value of the cash flows under the new terms (including any fees paid net of fees received) discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original debt instrument. The Group also considers qualitative factors in assessing whether a modified financial liability is 'substantially different' and where the modification is so fundamental, it accounts for this as an extinguishment of the original liability even though a quantitative analysis may indicate a less than 10% cash flow change.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are amortised over the life of the facility.

Borrowing costs are stated at amortised cost using the effective interest method.

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.

Bonds

Bonds are measured on an amortised cost basis.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Revenue and other operating income

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.

Rental income is accounted for on a straight line basis over the lease terms and is included in revenue in the income statement.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

The Group uses various commodity derivative instruments to manage some of the risks arising from fluctuations in commodity prices. Such contracts include options, swaps and futures. Where these derivatives have been designated as cash flow hedges of underlying commodity price exposures, certain gains and losses attributable to these instruments are deferred in other comprehensive income and recognised in the income statement within revenue and other operating income when the underlying hedged transaction crystallises or is no longer expected to occur. All other commodity derivatives within the scope of IAS 39 are measured at fair value with changes in fair value recognised in the income statement within revenue and other operating income. The gain or loss from commodity derivatives accounted for at fair value through profit or loss are included within business performance when the derivative reaches maturity and the gain or loss is realised.

Remeasurements and 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 or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

The following items are routinely classified as Remeasurements and exceptional items ("exceptional"):

- Unrealised mark to market changes in the remeasurement of derivative contracts are included in exceptional profit or loss. This includes the recycling of realised amounts from exceptional items into Business Performance income when a derivative instrument matures, together with the recycling of option premium amortisation from from exceptional to business performance as set out in the Derivatives policy above.
- Impairments and write-offs are deemed to be exceptional in nature. This includes impairments of tangible and intangible assets, and write offs of unsuccessful exploration. Other non-routine write offs/write downs, where deemed material, are also included in this category.
- The depletion of a fair value uplift to property, plant and equipment that arose from the merger accounting applied at the time of EnQuest's formation.

Employee benefits

Short term employee benefits

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

Pension obligations

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

Share-based payment transactions

Eligible employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (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 condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the statement of comprehensive income.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

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, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Production taxes

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

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

Investment allowances

The UK taxation regime provides for a reduction in ring fence supplementary corporation tax where investments in new or existing UK assets qualify for a relief known as investment allowances. Investment allowances are only triggered when production from the field commences. The Group is eligible for a number of investment allowances which will materially reduce the level of future supplementary corporation taxation. Investment allowances are recognised as a reduction in the charge to taxation in the years claimed.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

3. Segment information

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

Year ended 31 December 2016	North Sea US\$'000	Malaysia US\$'000	All other segments US\$'000	Total segments US\$'000	Adjustments and eliminations US\$'000	Consolidated US\$'000
Revenue:						
External customers	485,609	108,215	-	593,824	204,299	798,123
Total Group revenue	485,609	108,215	-	593,824	204,299	798,123
Income/(expenses)						
Depreciation and depletion	(209,194)	(36,582)	(33)	(245,809)	-	(245,809)
Impairment reversal of investments	48	-	-	48	-	48
Exploration write offs and impairments	(776)	-	-	(776)	-	(776)
Loss on disposal of assets	(16,178)	-	-	(16,178)	-	(16,178)
Net impairment reversal/(charge) to oil and gas assets	167,838	(19,967)	-	147,871	-	147,871
Segment profit/(loss)	216,658	(5,836)	(1,561)	209,261	135,818	345,079
Other disclosures:						
Capital expenditure	646,489	4,585	9	651,083	277	651,360

All other adjustments are part of the detailed reconciliations presented further below.

Year ended 31 December 2015	North Sea US\$'000	Malaysia US\$'000	All other segments US\$'000	Total segments US\$'000	Adjustments and eliminations US\$'000	Consolidated US\$'000
Revenue:						
External customers	528,181	117,231	-	645,412	263,102	908,514
Total Group revenue	528,181	117,231	-	645,412	263,102	908,514
Income/(expenses)						
Depreciation and depletion	(258,462)	(51,208)	(34)	(309,704)	-	(309,704)
Impairment charge to investments	(566)	-	-	(566)	-	(566)
Exploration write offs and impairments	(9,059)	-	-	(9,059)	-	(9,059)
Loss on disposal of assets	(10,737)	-	-	(10,737)	-	(10,737)
Net impairment reversal/(charge) to oil and gas assets	(1,216,650)	(7,813)	-	(1,224,463)	-	(1,224,463)
Segment profit/(loss)	(1,365,816)	(7,275)	(4,520)	(1,377,611)	36,670	(1,340,941)
Other disclosures:						
Capital expenditure	758,990	82,964	112	842,066	-	842,066

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

Adjustments and eliminations

Finance income and costs and gains and losses on derivatives are not allocated to individual segments as the underlying instruments are managed on a Group basis.

Capital expenditure consists of property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

Inter-segment revenues are eliminated on consolidation.

Reconciliation of profit:

	<i>Year ended 31 December 2016 US\$'000</i>	<i>Year ended 31 December 2015 US\$'000</i>
Segment profit/(loss)	209,261	(1,377,611)
Finance income	1,440	964
Finance expense	(129,275)	(106,690)
Gains and losses on oil and foreign exchange derivatives	135,818	142,396
Profit/(loss) before tax	217,244	(1,340,941)

Revenue from three customers (2015: three customers) each exceed 10% of the Group's consolidated revenue and amounted respectively to US\$321.0 million and US\$85.7 million arising from sales of crude oil in the North Sea operating segment and US\$89.9 million in the Malaysia operating segment (2015: US\$257.7 million and US\$170.2 million arising from sales of crude oil in the North Sea operating segment and US\$101.6 million in Malaysia operating segment).

All of the Group's segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) are located in the United Kingdom except for US\$128.1 million located in Malaysia (2015: US\$177.3 million).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

4. Re-measurements and exceptional items

Year ended 31 December 2016

US\$'000	Fair value re-measurement (i)	Impairments & write-offs (ii)	Debt restructuring (iii)	Surplus lease provision (iv)	Loss on disposal (v)	Other (vi)	Total
Revenue and other operating income	(51,504)	-	-	-	-	-	(51,504)
Cost of sales	(1,584)	-	-	-	-	(1,264)	(2,848)
Exploration and evaluation expenses	-	(776)	-	-	-	-	(776)
Impairment reversal on investments	-	48	-	-	-	-	48
Net impairment reversal on oil and gas assets	-	147,871	-	-	-	-	147,871
Loss on disposal of intangible oil and gas assets	-	-	-	-	(16,178)	-	(16,178)
Other income	2,837	-	-	22,948	-	5,721	31,506
Other expenses	-	-	-	-	-	(118)	(118)
Finance costs	31,072	-	(38,115)	-	-	-	(7,043)
	(19,179)	147,143	(38,115)	22,948	(16,178)	4,339	100,958
Tax on items above	8,797	(67,037)	10,323	(9,179)	-	506	(56,590)
Change in tax rate (vii)	-	-	-	-	-	(29,483)	(29,483)
Increase in the carrying amount of deferred tax assets (viii)	-	-	-	-	-	48,817	48,817
	(10,382)	80,106	(27,792)	13,769	(16,178)	24,179	63,702

- (i) Fair value re-measurements include unrealised mark to market movements on derivative contracts and other financial instruments, where the Group does not classify them as effective hedges. It also includes the impact of recycling realised gains and losses (including option premia) out of "Re-measurements and exceptional items" and into "Business Performance" profit or loss. Refer to note 2 for further details on the Group's accounting policies for derivatives, and re-measurements and exceptional items
- (ii) Impairments and write-offs include a net impairment reversal on tangible oil and gas assets totalling US\$147.9 million (2015: impairment of US\$1,225 million), together with a US\$0.05 million reversal of impairments on the investment in Ascent Resources (2015: US\$0.6 million impairment) and a US\$0.8 million impairment/write off of unsuccessful exploration costs (2015: US\$9.1 million impairment/write off). Further details on the tangible impairment are provided in notes 10 and 11.
- (iii) The Group's restructuring was deemed to result in a substantial modification of the terms of the Group's credit facility (see note 19). In accordance with IAS 39, the Group has accounted for this substantial modification as an extinguishment of the liability for the original credit facility and the recognition of a new liability for the revised credit facility. This has resulted in US\$15.0 million of unamortised costs associated with the previous credit facility being expensed on extinguishment. The costs of negotiating the modifications to the credit facility, totalling US\$11.1 million, were expensed. In addition, a US\$12.0 million restructuring fee, payable to the credit facility lenders by March 2018, has been expensed. These comprise an aggregate of US\$38.1 million of debt restructuring costs (see note 6 for further details).
- (iv) The Group has an agreement to hire the Stena Spey drilling vessel. At 31 December 2015, based on the drilling forecasts for 2016, it was expected that the vessel would not be fully utilised over this period and therefore a provision was recognised for unavoidable contracted costs of US\$22.9 million. During the year ended 31 December 2016, following changes to the Group's drilling schedule, the contracted days were utilised in full and the provision of US\$22.9 million was reversed. See note 22 for further details.
- (v) During the year ended 31 December 2016, the Group disposed of its interest in the Avalon prospect for cash proceeds of US\$1.5 million, resulting in a loss on disposal of US\$16.2 million (refer to note 12). The losses on disposal in 2015 include a \$2.3 million loss on the disposal of the Group's Norwegian exploration licence areas, and an \$8.5 million loss on the disposal of Annan House.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

- (vi) “Other” includes the US\$1.3 million depreciation of the fair value uplift (2015: US\$3.8 million). It also includes other 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. In 2016 it primarily includes a \$3.4 million reversal of a provision for contingent consideration which was no longer required following the results of the Eagle well drilled during the year.
- (vii) Finance Act 2016 enacted a change in the supplementary charge tax rate, reducing it from 20% to 10%, and a change to petroleum revenue tax rate, reducing it from 35% to 0%, both effective from 1 January 2016. Finance Act 2016 also enacted a reduction in the mainstream corporation tax rate reducing it from 18% to 17% with effect from 1 April 2020. The impact of these changes in tax rates in 2016 was a tax charge of US\$29.5 million.
- (viii) At the year end the recovery of deferred tax assets was reviewed which has led to a recognition of previously impaired tax losses totalling US\$48.8 million (2015: impairment of tax losses of US\$239.1 million). This write-back reflects the increase in value of the Group’s assets following a partial recovery of oil prices.

Year ended 31 December 2015

US\$'000	Fair value re-measurement	Impairments & write-offs	Surplus lease provision	Loss on disposal	Other	Total
Revenue and other operating income	1,932	-	-	-	-	1,932
Cost of sales	2,254	(13,598)	-	-	(3,786)	(15,130)
Exploration and evaluation expenses	-	(9,059)	-	-	-	(9,059)
Impairment reversal/(charge) to investments	-	(566)	-	-	-	(566)
Net impairment reversal/(charge) to oil and gas assets	-	(1,224,463)	-	-	-	(1,224,463)
Loss on disposal of land and buildings	-	-	-	(8,473)	-	(8,473)
Loss on disposal of intangible oil and gas assets	-	-	-	(2,264)	-	(2,264)
General and administration expenses	-	-	(3,611)	-	-	(3,611)
Other income	272	-	-	-	1,664	1,936
Other expenses	(30)	(4,350)	(22,948)	-	(2,307)	(29,635)
Finance costs	(49,769)	-	-	-	(328)	(50,097)
	(45,341)	(1,252,036)	(26,559)	(10,737)	(4,757)	(1,339,430)
Tax on items above	22,800	596,834	13,313	-	1,458	634,405
Change in tax rate	-	-	-	-	56,790	56,790
Increase in the carrying amount of deferred tax assets	-	-	-	-	(239,067)	(239,067)
	(22,541)	(655,202)	(13,246)	(10,737)	(185,576)	(887,302)

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

5. Revenue and expenses (a) Revenue and other operating income

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Revenue from crude oil sales	577,822	634,338
Revenue from gas and condensate sales	3,628	1,917
Realised gains on oil derivative contracts (note 20(e))	255,803	261,170
Tariff revenue	4,915	6,581
Other operating revenue	142	8
Rental income	7,317	2,568
Business performance revenue	<u>849,627</u>	<u>906,582</u>
Unrealised gains and losses on oil derivative contracts* (note 20(e))	<u>(51,504)</u>	<u>1,932</u>
Total revenue and other operating income	<u><u>798,123</u></u>	<u><u>908,514</u></u>

* Unrealised gains and losses on oil derivative contracts which are either ineffective for hedge accounting purposes or held for trading are disclosed as exceptional in the income statement (refer note 4).

(b) Cost of sales

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Cost of operations	285,040	333,755
Tariff and transportation expenses	58,139	69,053
Realised loss on foreign exchange derivative contracts ⁽ⁱ⁾ (note 20(e))	66,898	3,169
Change in lifting position	4,656	23,918
Crude oil inventory movement	(1,830)	4,612
Depletion of oil and gas assets (note 10)	240,615	298,901
Business performance cost of sales	<u>653,518</u>	<u>733,408</u>
Depletion of oil and gas assets (note 10)	1,264	3,786
Write down of inventory	-	13,598
Unrealised gains and losses on foreign exchange derivative contracts ⁽ⁱⁱ⁾ (note 20(e))	1,584	(2,254)
Total cost of sales	<u><u>656,366</u></u>	<u><u>748,538</u></u>

(i) The realised loss on foreign exchange derivative contracts comprises US\$19.6 million for contracts related to operating expenditure and US\$47.3 million for contracts related to capital expenditure (2015: gain of US\$6.2 million related to operating expenditure and loss of US\$9.4 million related to capital expenditure).

(ii) Unrealised gains and loss on foreign exchange derivative contracts which are either ineffective for hedge accounting purposes or held for trading are disclosed as exceptional in the income statement (refer note 4).

(c) Exploration and evaluation expenses

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Unsuccessful exploration expenditure written off* (note 12)	458	7,205
Impairment charge* (note 12)	318	1,854
Pre-licence costs expensed	68	325
	<u><u>844</u></u>	<u><u>9,384</u></u>

* Disclosed as exceptional in the income statement (refer note 4).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

5. Revenue and expenses (continued) (d) General and administration expenses

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Staff costs (note 5(g))	86,773	98,861
Depreciation (note 10)	3,930	7,017
Other general and administration costs	32,355	28,436
Recharge of costs to operations and joint venture partners	(112,168)	(116,332)
	<u>10,890</u>	<u>17,982</u>

(e) Other income

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Net foreign exchange gains	51,867	15,030
Release of surplus lease provision*	22,948	-
Fair value movements on financial assets*	2,151	272
Change in provision for contingent consideration*	4,056	-
Decommissioning provision reduction*	1,627	-
Acquisition accounting adjustment*	694	1,146
Other income*	30	919
Other	69	-
	<u>83,442</u>	<u>17,367</u>

* Disclosed as exceptional in the income statement (refer note 4).

(f) Other expenses

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Change in deferred consideration*	-	2,307
Fair value movements on financial liabilities*	-	30
Write down of receivable*	118	4,350
Surplus lease provision*	-	22,948
Other	9	-
	<u>127</u>	<u>29,635</u>

* Disclosed as exceptional in the income statement (refer note 4).

(g) Staff costs

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Wages and salaries	47,089	50,471
Social security costs	4,458	5,569
Defined contribution pension costs	3,522	3,748
Expense of share-based payments (note 18)	8,452	5,701
Other staff costs	2,709	3,175
Total employee costs	<u>66,230</u>	<u>68,664</u>
Contractor costs	<u>20,543</u>	<u>30,197</u>
	<u>86,773</u>	<u>98,861</u>

The average number of persons employed by the Group during the year was 477 (2015: 475).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

(h) Auditor's remuneration

The following amounts were payable by the Group to its auditor, Ernst & Young LLP, during the year:

	<i>Year ended 31 December 2016 US\$'000</i>	<i>Year ended 31 December 2015 US\$'000</i>
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	515	514
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	74	112
Audit related assurance services (interim review)	71	67
Tax advisory services	58	50
Corporate finance services(i)	312	-
	515	229
	1,030	743

(i) Relates to the reporting accountant's report on the unaudited pro forma financial information in Company's prospectus for the placing and open offer (note 17).

6. Finance costs/income

	<i>Year ended 31 December 2016 US\$'000</i>	<i>Year ended 31 December 2015 US\$'000</i>
Finance costs:		
Loan interest payable	50,789	21,965
Bond interest payable	59,689	58,248
Unwinding of discount on decommissioning provisions (note 22)	10,724	17,034
Unwinding of discount on other provisions (note 22)	3,173	4,912
Unwinding of discount on financial liabilities (note 20(f))	279	323
Fair value loss on financial instruments at fair value through profit or loss (note 20(e))	36,516	70,022
Finance charges payable under finance leases	-	1
Amortisation of finance fees on loans and bonds	5,910	7,286
Other financial expenses	10,501	10,965
	177,581	190,756
Less: amounts capitalised to the cost of qualifying assets	(55,349)	(14,372)
Business performance finance expenses	122,232	176,384
Fair value loss on financial instruments at fair value through profit or loss (note 20(e))	(31,072)	49,769
Debt restructuring costs (note 4)	38,115	-
Unwinding of discount on other provisions	-	328
	129,275	226,481
Finance income:		
Bank interest receivable	337	287
Unwinding of discount on financial asset (note 20(f))	1,017	544
Other financial income	86	133
	1,440	964

Fair value gains and losses on financial instruments at fair value through profit or loss relate to the movement in the time value portion of the fair value of commodity put option contracts where the intrinsic value has been designated as an effective hedge of production.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

7. Income tax

(a) Income tax

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

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
<i>Current income tax</i>		
Current income tax charge	-	(11)
Adjustments in respect of current income tax of previous years	-	320
<i>Current overseas income tax</i>		
Current income tax charge	11,269	11,898
Adjustments in respect of current income tax of previous years	(1,294)	(714)
Total current income tax	<u>9,975</u>	<u>11,493</u>
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(4,756)	(511,356)
Adjustments in respect of changes in tax rates	29,483	(56,790)
Adjustments in respect of deferred income tax of previous years	3,021	(15,189)
<i>Deferred overseas income tax</i>		
Relating to origination and reversal of temporary differences	(7,511)	(12,663)
Adjustments in respect of deferred income tax of previous years	1,820	3,048
Total deferred income tax	<u>22,057</u>	<u>(592,950)</u>
Income tax expense/(credit) reported in profit or loss	<u><u>32,032</u></u>	<u><u>(581,457)</u></u>

(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 2016 US\$'000	Year ended 31 December 2015 US\$'000
Profit/(loss) before tax	217,244	(1,340,941)
Statutory rate of corporation tax in the UK of 40% (2015: 50%)	86,898	(670,471)
Supplementary corporation tax non-deductible expenditure	(11,390)	11,636
Non-deductible expenditure (i)	32,631	85,081
Non-deductible loss on disposals	4	3,116
Petroleum revenue tax (net of income tax benefit) (ii)	(3,702)	(83,070)
North Sea tax reliefs	(102,149)	(109,111)
Tax in respect of non-ring fence trade	27,653	3,482
Tax losses not recognised (iii)	(39,198)	242,124
Deferred tax rate changes	29,483	(56,790)
Adjustments in respect of prior years	3,547	(12,535)
Overseas tax rate differences	4,362	1,747
Share-based payments	3,154	3,288
Other differences	739	46
At the effective income tax rate of 15% (2015: 43%)	<u><u>32,032</u></u>	<u><u>(581,457)</u></u>

(i) movement is primarily the impact of non-tax deductible impairment of fixed assets

(ii) movement is primarily the release of deferred PRT liability following impairment of Thistle and Alba

(iii) current year tax credit is the re-recognition of ring fence tax losses de-recognised in 2015 and the de-recognition of non-ring fence losses in 2016

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

7. Income tax (continued)

(c) *Deferred income tax*

Deferred income tax relates to the following:

	Group balance sheet		(Credit)/charge for the year recognised in profit or loss	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
<i>Deferred tax liability</i>				
Accelerated capital allowances	1,085,456	1,012,416	73,310	(576,810)
Other temporary differences	-	171,025	(36,850)	(166,678)
	<u>1,085,456</u>	<u>1,183,441</u>		
<i>Deferred tax asset</i>				
Losses	(1,060,036)	(1,000,559)	(59,477)	77,535
Decommissioning liability	(185,418)	(234,309)	48,891	(30,813)
Other temporary differences	(31,717)	(27,900)	(3,817)	103,816
	<u>(1,277,171)</u>	<u>(1,262,768)</u>		
Deferred tax expense			22,057	(592,950)
Net deferred tax (assets)/liabilities	(191,715)	(79,327)		
Reflected in the balance sheet as follows:				
Deferred tax assets	(206,742)	(138,525)		
Deferred tax liabilities	15,027	59,198		
Net deferred tax (assets)/liabilities	(191,715)	(79,327)		

Reconciliation of net deferred tax assets/(liabilities)

	2016 US\$'000	2015 US\$'000
At 1 January	79,327	(476,340)
Tax income/(expense) during the period recognised in profit or loss	(22,057)	592,950
Tax income/(expense) during the period recognised in other comprehensive income	134,177	(37,283)
Deferred taxes acquired (note 29)	268	-
At 31 December	191,715	79,327

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

7. Income tax (continued)

(d) Tax losses

The Group's deferred tax assets at 31 December 2016 are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the UK can be utilised. In accordance with IAS 12 Income Taxes the Group assessed the recoverability of its deferred tax assets at 31 December 2016 with respect to ring fence tax losses and allowances. The impairment model used to assess the extent to which it is appropriate to recognise the Group's UK tax losses as deferred tax assets was run, using an oil price assumption of Dated Brent forward curve in the years 2017 to 2019 followed by US\$70/bbl inflated at 2% per annum from 2020. The results of the impairment model demonstrated that it was appropriate to recognise a deferred tax asset on US\$214.3 million (2015: US\$478.1 million deferred tax asset not recognised) of the Group's UK ring fence corporate tax losses at 31 December 2016 based on expected future profitability. The recognised loss amount results in a deferred tax credit of US\$85.7 million (2015: US\$239.1 million) for the year in respect of losses and allowances that were previously not recognised as a deferred tax asset.

The Group has unused UK mainstream corporation tax losses of US\$285.8 million (2015: US\$36.1 million) for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of recovery of these losses.

The Group realised a capital loss of US\$3.3 million in the year to 31 December 2015 in relation to the disposal of a subsidiary company which has not been recognised at the balance sheet date due to the uncertainty of recovery.

The Group has unused overseas tax losses in Canada of approximately CAD\$13.4 million (2015: CAD\$13.4 million) for which no deferred tax asset has been recognised at the balance sheet date. The tax losses in Canada have expiry periods of 20 years, none of which expire in 2017, and which arose following the change in control of the Stratic group in 2010.

During the year to 31 December 2015 the group relinquished licences SB307 and SB308 in Malaysia and its only concession in Egypt. No deferred tax asset has been recognised at the balance sheet date in respect of tax losses of US\$0.05 million (2015: US\$30.0 million) in Malaysia due to the uncertainty of recovery. In Egypt the tax losses of US\$3.1 million expired upon closure of the Branch.

The group has unused Malaysian income tax losses of US\$3.1 million (2015: US\$2.1 million) arising in respect of the Tanjong Baram RSC for which no deferred tax asset has been recognised at the balance sheet date due to uncertainty of recovery of these losses.

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

(e) Change in legislation

Finance Act 2016 enacted a change in the mainstream corporation tax rate, reducing it from 18% to 17% with effect from 1 April 2020. The impact of the change in tax rate in 2016 was a tax charge of US\$0.7 million.

Finance Act 2016 also enacted a change in the supplementary charge tax rate, reducing it from 20% to 10% with effect from 1 January 2016 and a change to the petroleum revenue tax rate, reducing it from 35% to 0% with effect from 1 January 2016. The impact of the change in tax rate in 2016 was a tax charge of US\$28.9 million.

(f) Factors affecting future tax charges

The draft Finance Bill 2017 contains proposed legislation in relation to the restriction of corporate interest deductions from 1 April 2017 and proposed legislation to restrict relief for mainstream corporate tax losses with effect from 1 April 2017. These changes are not yet substantively enacted and as drafted the proposed legislation does not impact North Sea ring fence activities and therefore the impact on the Group tax charge is expected to be minimal.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

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 /(loss) after tax		Weighted average number of Ordinary shares		Earnings per share	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2016 <i>US\$'000</i>	<i>2015</i> <i>US\$'000</i>	2016 <i>million</i>	<i>2015</i> <i>million</i>	2016 <i>US\$</i>	<i>2015</i> <i>US\$</i>
Basic	185,212	(759,484)	815.3	774.8	0.227	(0.980)
Dilutive potential of Ordinary shares granted under share-based incentive schemes	-	-	24.6	-	(0.006)	-
Diluted	185,212	(759,484)	839.9	774.8	0.221	(0.980)
Basic (excluding exceptional items)	121,510	127,817	815.3	774.8	0.149	0.165
Diluted (excluding exceptional items)	121,510	127,817	839.9	774.8	0.145	0.165

9. Dividends paid and proposed

The Company paid no dividends during the year ended 31 December 2016 (2015: none). At 31 December 2016 there are no proposed dividends (2015: none).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

10. Property, plant and equipment

	<i>Land and buildings</i>	<i>Oil and gas assets</i>	<i>Office furniture, fixtures and fittings</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost:				
At 1 January 2015	59,937	5,433,198	33,269	5,526,404
Additions	18,212	789,670	18,596	826,478
Change in cost carry liabilities	-	(78,045)	-	(78,045)
Disposal	(78,149)	-	-	(78,149)
Change in decommissioning provision	-	45,575	-	45,575
Change in cost recovery provision	-	(41,125)	-	(41,125)
Reclassification from intangible assets (note 12)	-	16,215	-	16,215
At 31 December 2015	-	6,165,488	51,865	6,217,353
Additions	-	629,654	2,857	632,511
Acquired (note 29)	-	40,695	-	40,695
Change in cost carry liabilities	-	26,042	-	26,042
Change in decommissioning provision	-	(34,423)	-	(34,423)
Change in cost recovery provision	-	(40,389)	-	(40,389)
Reclassification from intangible assets (note 12)	-	276	-	276
At 31 December 2016	-	6,787,343	54,722	6,842,065
Accumulated depletion and impairment:				
At 1 January 2015	110	2,224,870	21,685	2,246,665
Charge for the year	41	302,687	6,976	309,704
Impairment charge for the year	-	1,224,463	-	1,224,463
Disposal	(151)	-	-	(151)
At 31 December 2015	-	3,752,020	28,661	3,780,681
Charge for the year	-	241,879	3,930	245,809
Net impairment reversal for the year	-	(147,871)	-	(147,871)
At 31 December 2016	-	3,846,028	32,591	3,878,619
Net carrying amount:				
At 31 December 2016	-	2,941,315	22,131	2,963,446
At 31 December 2015	-	2,413,468	23,204	2,436,672
At 1 January 2015	59,827	3,208,328	11,584	3,279,739

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

10. Property, plant and equipment (continued)

During 2016 the Group acquired an additional 10.5% interest in the Kraken asset and an additional 15.15% interest in the West Don field, resulting in aggregate purchase consideration of US\$40.7 million allocated to property, plant and equipment (refer note 29).

On 28 August 2015, the Group completed the sale and leaseback of its Aberdeen property, Annan House for US\$69.5 million resulting in a loss on disposal of US\$8.5 million recognised during the year ended 31 December 2015.

During the year ended 31 December 2016, a liability of US\$26.6 million was recognised for the carry payable for the Kraken field following the finalisation of a reserve determination (note 22). The amount payable was dependent upon the dated Brent forward curve at the date of the reserve determination. During 2015, the previous provision of US\$80.0 million was derecognised as, based on oil prices at 31 December 2015, no carry was expected to be payable. Change in carry liabilities also includes a US\$0.5 million decrease in the liability (note 20(f)) for Malaysian assets (2015: increase of US\$2.0 million).

During the year ended 31 December 2015, the Scolty/Crathes field received Field Development Plan (FDP) approval and costs of US\$16.1 million previously held within exploration assets were reclassified as a tangible oil and gas asset.

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

	Impairment reversal/(charge)		Recoverable amount ^(iv)	
	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000	31 December 2016 US\$'000	31 December 2015 US\$'000
Central North Sea ⁽ⁱ⁾	(184,437)	(620,865)	296,989	559,421
Northern North Sea ⁽ⁱⁱ⁾	352,275	(595,785)	848,628	598,480
Malaysia ⁽ⁱⁱⁱ⁾	(19,967)	(7,813)	39,748	70,731
Net impairment reversal/(charge)	147,871	(1,224,463)		

- (i) Amounts disclosed for Central North Sea include Alma Galia and Alba. The impairment of Alma Galia is primarily driven by the lower reservoir and well performance than had been estimated previously.
- (ii) Northern North Sea includes Heather Broom, Thistle/Deveron and the Dons fields. The impairment reversals are attributable primarily to higher prices in the short term, and the impact of a deterioration in the GBP/USD exchange rate on the underlying costs of the assets.
- (iii) The amounts disclosed for Malaysia relate to the Tanjong Baram field.
- (iv) Recoverable amount has been determined on a fair value less costs of disposal basis (refer to note 11 for further details of methodology and assumptions used, and note 2 *Critical Accounting Estimates and Judgements* for information on significant estimates and judgements made in relation to impairments see impairment of oil and gas assets). The amounts disclosed above are in respect of assets where an impairment (or reversal) has been recorded. Assets which did not have any impairment or reversal are excluded from the amounts disclosed.

The net book value at 31 December 2016 includes US\$1,536.6 million (2015: US\$1,009.8 million) of pre-development assets and development assets under construction which are not being depreciated.

The amount of borrowing costs capitalised during the year ended 31 December 2016 was US\$55.3 million (2015: US\$14.4 million) and relate to the Kraken and Scolty/Crathes development projects (2015: Alma/Galia and Kraken development projects as well as the construction of the new office building). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation is 6.2%.

The net book value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2016 was US\$nil (2015: US\$0.1 million) of oil and gas assets.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

11. Goodwill

A summary of goodwill is presented below:

	2016 US\$'000	2015 US\$'000
Cost and net carrying amount		
At 1 January and 31 December	189,317	189,317

The goodwill balance arose from the acquisition of Stratic and PEDL in 2010 and the Greater Kittiwake Area asset in 2014.

Goodwill acquired through business combinations has been allocated to a single cash-generating unit (CGU), the UK Continental Shelf (UKCS), and this is therefore the lowest level at which goodwill is reviewed.

Impairment testing of oil and gas assets and goodwill

In accordance with IAS 36 Impairment of Assets, goodwill and oil and gas assets have been reviewed for impairment at the year end. In assessing whether goodwill and oil and gas assets have been impaired, the carrying amount of the CGU for goodwill and at field level for oil and gas assets, is compared with their recoverable amounts.

The recoverable amounts of the CGU and fields have been determined on a fair value less costs to sell basis. Discounted cash flow models comprising asset-by-asset life of field projections using Level 3 inputs (based on IFRS 13 fair value hierarchy) have been used to determine the recoverable amounts. The cash flows have been modelled on a post-tax and post-decommissioning basis discounted at the Group's post-tax weighted average cost of capital (WACC) of 10% (2015: 8.5%). Risks specific to assets within the CGU are reflected within the cash flow forecasts.

Key assumptions used in calculations

The key assumptions required for the calculation of the recoverable amounts are:

- oil prices;
- currency exchange rates;
- production volumes;
- discount rates; and
- opex, capex and decommissioning costs.

Oil prices are based on Dated Brent forward price curves for the first three years and thereafter at US\$70 per barrel inflated at 2% per annum from 2020.

Production volumes are based on life of field production profiles for each asset within the CGU. The production volumes used in the calculations were taken from the report prepared by the Group's independent reserve assessment experts.

Opex, capital expenditure and decommissioning costs are derived from the Group's Business Plan adjusted for changes in timing based on the production model used for the assessment of proven and probable (2P) reserves.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

11. Goodwill (continued)

The discount rate reflects management's estimate of the Group's WACC. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings. Segment risk is incorporated by applying a beta factor based on publicly available market data. The post-tax discount rate applied to the Group's post-tax cash flow projections was 10%.

Sensitivity to changes in assumptions

The Group's value is highly sensitive, inter alia, to oil price achieved and production volumes. The recoverable amount (NPV) of the CGU would be equal to the carrying amount of goodwill if either the oil price or production volumes (on a CGU weighted average basis) were to fall by 9% from the prices outlined above. Goodwill would need to be fully impaired if the oil price or production volumes (on a CGU weighted average basis) were to fall by 13% from the prices outlined above. The above sensitivities have flexed revenues and tax cash flows, but operating costs and capital expenditures have been kept constant. In reality, management would be highly likely to take steps to mitigate the value impact of further falls in the oil price by cutting supply chain costs.

12. Intangible oil and gas assets

	Cost	Accumulated impairment	Net carrying amount
	US\$'000	US\$'000	US\$'000
At 1 January 2015	307,164	(241,454)	65,710
Additions	15,588	-	15,588
Disposal of interests in licences	(9,329)	-	(9,329)
Write-off of relinquished licences previously impaired	(63,123)	63,123	-
Unsuccessful exploration expenditure written off	(7,205)	-	(7,205)
Change in decommissioning provision	(165)	-	(165)
Reclassified to tangible fixed assets (note 10)	(16,215)	-	(16,215)
Impairment charge for the year	-	(1,854)	(1,854)
At 31 December 2015	226,715	(180,185)	46,530
Additions	18,849	-	18,849
Disposal of interests in licences	(17,644)	-	(17,644)
Write-off of relinquished licences previously impaired	(1,311)	1,311	-
Unsuccessful exploration expenditure written off	(458)	-	(458)
Change in decommissioning provision	3,649	-	3,649
Reclassified to tangible fixed assets (note 10)	(276)	-	(276)
Impairment charge for the year	-	(318)	(318)
At 31 December 2016	229,524	(179,192)	50,332

The additions in 2016 and the related change in decommissioning provision primarily relate to the Eagle well which was drilled during the year.

During the year ended 31 December 2016, the Group disposed of its interest in the Avalon prospect for US\$1.5 million, realising a loss on disposal of US\$16.2 million (note 4).

During the year ended 31 December 2015:

- the Group acquired an additional 10% working interest in the Scolty/Crathes field and, following FDP approval in October 2015, the total exploration costs of the field were reclassified to tangible oil and gas assets (note 10);
- the Group disposed of its 35% interest in the Norwegian licences PL 758 and PL800 and its 50% interest in the PL760 and PL760B for US\$2.1 million, resulting in a loss of US\$2.3 million;
- the Group exited from its interest in Egypt and costs of US\$5.0 million refunded were included within disposal of interests in licences;
- unsuccessful exploration costs of US\$7.2 million were written off, primarily in relation to the Cairngorm and Elke licences; and
- the Group completed its withdrawal from SB307/308 blocks in Malaysia, for which the carrying value had been previously impaired during the year ended 31 December 2014.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

13. Investments

	<i>US\$'000</i>
Cost:	
At 1 January 2015, 31 December 2015 and 31 December 2016	<u>19,231</u>
Provision for impairment:	
At 1 January 2015	(18,542)
Impairment charge for the year	(566)
At 31 December 2015	<u>(19,108)</u>
Impairment reversal for the year	48
At 31 December 2016	<u>(19,060)</u>
Net carrying amount:	
At 31 December 2016	<u>171</u>
At 31 December 2015	<u>123</u>
At 1 January 2015	<u>689</u>

The investment relates to ordinary shares in Ascent Resources Plc ("Ascent") held since 2011. In November 2015, Ascent agreed a capital re-organisation whereby new shares were issued and the share capital was re-denominated. The impact was to reduce EnQuest's holding from 160,903,958 0.1p ordinary shares to 8,045,198 0.2p ordinary shares.

The accounting valuation of the Group's shareholding (based on the quoted share price of Ascent) resulted in a non-cash impairment reversal US\$0.05 million in the year to 31 December 2016 (2015: impairment of US\$0.6 million).

14. Inventories

	<i>2016</i> <i>US\$'000</i>	<i>2015</i> <i>US\$'000</i>
Crude oil	13,199	11,477
Well supplies	61,786	56,152
	<u>74,985</u>	<u>67,629</u>

15. Trade and other receivables

	<i>2016</i> <i>US\$'000</i>	<i>2015</i> <i>US\$'000</i>
Current		
Trade receivables	44,363	71,740
Joint venture receivables	91,220	110,792
Under-lift position	11,886	14,011
VAT receivable	9,098	16,838
Other receivables	17,971	26,246
	<u>174,538</u>	<u>239,627</u>
Prepayments and accrued income	28,128	112,246
	<u>202,666</u>	<u>351,873</u>

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 2016 no impairment provision for trade receivables was necessary (2015: nil).

Joint venture receivables relate to amounts billable to or recoverable from joint venture partners and were not impaired. Under-lift is valued at net realisable value being the lower of cost and net realisable value. As at 31 December 2016 and 31 December 2015 no other receivables were determined to be impaired.

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 largely due to their short term maturities.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

16. Cash and cash equivalents

The carrying value of the Group's cash and cash equivalents is considered to be a reasonable approximation to their fair value due to their short term maturities. Included within the cash balance at 31 December 2016 is restricted cash of US\$6.6 million (2015: US\$11.5 million). US\$6.0 million of this relates to cash held in escrow in respect of the unwound acquisition of the Tunisian assets of PA Resources (2015: US\$6.8 million) and the remainder relates to cash collateral held to issue bank guarantees in Malaysia.

Cash and cash equivalents also include an amount of US\$9.4 million held in a Malaysian bank account which can only be used to pay cash calls for the Tanjung Baram asset and amounts related to the Tanjung Baram project finance loan.

17. Share capital and premium

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

	<i>Ordinary shares of £0.05 each Number</i>	<i>Share capital US\$'000</i>	<i>Share premium US\$'000</i>	<i>Total US\$'000</i>
Authorised, issued and fully paid				
At 1 January 2016	802,660,757	61,249	52,184	113,433
Issuance of equity shares	356,738,114	22,093	79,535	101,628
Expenses of issue of equity shares	-	-	(6,422)	(6,422)
At 31 December 2016	1,159,398,871	83,342	125,297	208,639

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

On 21 November 2016, the Company completed a placing and open offer, pursuant to which 356,738,114 new Ordinary shares were issued at a price of £0.23 per share, generating gross aggregate proceeds of US\$101.6 million. 233,858,061 of the new shares issued resulted from existing shareholders taking up their entitlement under the open offer to acquire four new Ordinary shares for every nine Ordinary shares previously held. There were no new issues of shares during 2015.

At 31 December 2016 there were 33,563,282 shares held by the Employee Benefit Trust (2015: 26,702,378): 10,739,486 shares were acquired on 21 November 2016 pursuant to the open offer with the remainder of the movement due to shares used to satisfy awards made under the Company's share-based incentive schemes.

18. Share-based payment plans

On 18 March 2010, the Directors of the Company approved three share schemes for the benefit of Directors and employees, being a Deferred Bonus Share Plan, a Restricted Share Plan and a Performance Share Plan. A Sharesave Plan was approved in 2012. The grant values for all schemes are typically based on the average share price from the three days preceding the date of grant.

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

	2016	2015
	US\$'000	US\$'000
Deferred Bonus Share Plan	1,274	1,095
Restricted Share Plan	920	879
Performance Share Plan	4,378	3,717
Sharesave Plan	93	10
Executive Director bonus awards	1,787	-
	8,452	5,701

Deferred Bonus Share Plan ("DBSP")

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 will vest 33% on the first anniversary of the date of grant, a further 33% after year two and the final 34% on the third anniversary of the date of grant. Awards, both invested and matching, are forfeited if the employee leaves the Group before the awards vest.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

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

	<u>2016</u>	<u>2015</u>
Weighted average fair value per share	32p	39p

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

	2016	2015
	Number	Number
Outstanding at 1 January	2,554,269	1,601,635
Granted during the year (i)	1,256,836	1,860,580
Exercised during the year	(1,199,434)	(859,568)
Forfeited during the year	(103,645)	(48,378)
Outstanding at 31 December	<u>2,508,026</u>	<u>2,554,269</u>

(i) On 21 November 2016, at its discretion, the Company increased the number of shares receivable by participants in the DBSP by a factor of 1.09265387 so that the value of their rights under outstanding awards was not adversely affected by the open offer. This resulted in the grant of 263,790 additional share awards. The fair value of these awards of US\$0.1 million will be expensed over the remaining vesting period of the original awards to which they relate.

There were no share awards exercisable at either 31 December 2016 or 2015.

The weighted average contractual life for the share awards outstanding as at 31 December 2016 was 1.0 years (2015: 1.1 years).

Restricted Share Plan ("RSP")

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

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

	<u>2016</u>	<u>2015</u>
Weighted average fair value per share	32p	39p

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

	2016	2015
	Number	Number
Outstanding at 1 January	5,815,692	5,271,022
Granted during the year (i)	8,526,792	1,390,000
Exercised during the year	(530,109)	(767,124)
Forfeited during the year	(1,248,056)	(78,206)
Outstanding at 31 December	<u>12,564,319</u>	<u>5,815,692</u>
Exercisable at 31 December	<u>3,369,261</u>	<u>3,021,061</u>

(i) On 21 November 2016, at its discretion, the Company increased the number of shares receivable by participants in the RSP by a factor of 1.09265387 so that the value of their rights under outstanding awards was not adversely affected by the open offer. This resulted in the grant of 1,164,647 additional share awards. The fair value of these awards of US\$0.4 million will be expensed over the remaining vesting period of the original awards to which they relate.

The weighted average contractual life for the share awards outstanding as at 31 December 2016 was 5.6 years (2015: 1.8 years).

Performance Share Plan (PSP)

Under the Performance Share Plan, the shares vest subject to performance conditions. The PSP share awards granted during the year had three sets of performance conditions associated with them. 50% of the award relates to Total Shareholder Return (TSR) against a comparator group of 17 oil and gas companies listed on the FTSE 350, AIM Top 100 and Stockholm NASDAQ OMX; 40% relates to production growth per share; and 10% relates to new 2P reserve additions over the three year performance period. Awards will vest on the third anniversary.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

The fair value of the awards granted under the plan at various grant dates during the year are based on quoted market prices and allow for the effect of the TSR condition, a market-based performance condition. The fair values for awards granted during the year were as follows:

	<u>2016</u>	<u>2015</u>
Weighted average fair value per share	8p	39p

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

	2016	2015
	<i>Number</i>	<i>Number</i>
Outstanding at 1 January	20,348,024	11,091,120
Granted during the year(i)	47,934,689	12,125,800
Exercised during the year	(2,139,477)	(1,346,663)
Forfeited during the year	(5,119,913)	(1,522,233)
Outstanding at 31 December	61,023,323	20,348,024
Exercisable at 31 December	2,104,559	1,178,512

(i) On 21 November 2016, at its discretion, the Company increased the number of shares receivable by participants in the PSP by a factor of 1.09265387 so that the value of their rights under outstanding awards was not adversely affected by the open offer. This resulted in the grant of 5,343,888 additional share awards. The fair value of these awards of US\$1.0 million will be expensed over the remaining vesting period of the original awards to which they relate.

The weighted average contractual life for the share awards outstanding as at 31 December 2016 was 4.5 years (2015: 1.7 years).

Sharesave plan

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

Details of the fair values granted during the year are shown below:

	<u>2016</u>	<u>2015</u>
Weighted average fair value per share	4p	6p

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

	2016	2015
	<i>Number</i>	<i>Number</i>
Outstanding at 1 January	6,949,242	1,315,755
Granted during the year(i)	10,823,513	7,653,785
Exercised during the year	(9,562)	-
Forfeited during the year	(5,105,761)	(2,020,298)
Outstanding at 31 December	12,657,432	6,949,242

(i) On 21 November 2016, at its discretion, the Company increased the number of options receivable by participants in the Sharesave plan by a factor of 1.09265387 so that the value of their rights under outstanding awards was not adversely affected by the open offer. This resulted in the grant of 1,098,593 additional share options. The exercise price of outstanding options was also reduced by multiplying by a factor 0.91520291. The incremental fair value of these adjustments of US\$0.1 million will be expensed over the remaining vesting period of the options to which they relate.

There were no share options exercisable at either 31 December 2016 or 2015.

The weighted average contractual life for the share options outstanding as at 31 December 2016 was 3.1 years (2015: 2.9 years).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

Executive director bonus awards

As detailed in the Directors' Remuneration Report, one third of the annual bonus for Amjad Bseisu and Jonathan Swinney is paid in EnQuest PLC shares, deferred for two years, and subject to continued employment. The number of shares receivable is determined by the Remuneration Committee based on the share price in effect on the 1st April following the end of the year to which the bonus relates.

The following table shows the movement in the number of share awards outstanding:

	2016 Number	2015 Number
Outstanding at 1 January	1,164,804	726,505
Granted during the year	755,001	438,299
Exercised during the year	-	-
Forfeited during the year	-	-
Outstanding at 31 December	1,919,805	1,164,804

At 31 December 2016, the total share awards outstanding include 726,505 shares in respect of bonuses from 2010 to 2013 which are yet to be settled by the Company. The Company expects to settle these awards, along with those which relate to the 2014 bonus, during the forthcoming financial year.

The fair value of the awards granted each year is equal to the one third portion of the previous year's bonus that has been deferred. For the awards granted in 2016 in respect of the 2015 annual bonus, the fair value per share was 24 pence, determined by reference to the quoted share price at the date of grant (2015: 35 pence).

The weighted average contractual life for the share awards outstanding as at 31 December 2016 was 0.6 years (2015: 0.5 years).

19. Loans and borrowings

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

	2016			2015		
	<i>Principal</i>	<i>Fees</i>	<i>Total</i>	<i>Principal</i>	<i>Fees</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Credit facility	1,037,516	-	1,037,516	902,277	(19,168)	883,109
Tanjong Baram project finance loan	24,850	(690)	24,160	35,000	(886)	34,114
Trade creditor loan	40,000	-	40,000	-	-	-
Total loans	1,102,366	(690)	1,101,676	937,277	(20,054)	917,223
Due within one year			49,601			10,150
Due after more than one year			1,052,075			907,073
Total loans			1,101,676			917,223

Credit facility

In October 2013, the Group entered into a six year US\$1.7 billion multi-currency revolving credit facility (the "RCF"), comprising of a committed amount of US\$1.2 billion (subject to the level of reserves) with a further US\$500 million available through an accordion structure. Interest on the revolving credit facility was payable at LIBOR plus a margin of 2.50% to 4.25%, dependent on specified covenant ratios.

On 21 November 2016, pursuant to the Restructuring the Group entered into an amended and restated credit agreement, which included the following terms:

- commitments split into a term facility of US\$1.125 billion and a revolving facility of US\$75 million (together the "Credit Facility");
- maturity date extended to October 2021;
- amortisation profile amended, with 31 March 2018 the first scheduled amortisation date;
- borrowings subject to mandatory repayment out of excess cash flow (excluding amounts required for approved capital expenditure), assessed on a six monthly basis;
- borrowings up to US\$890.7 million subject to interest at LIBOR plus a margin of 4.75%, paid in cash;
- borrowings in excess of US\$890.7 million subject to interest at LIBOR plus a margin of 5.25%, paid in cash, with a further 3.75% interest accrued and added to the PIK amount on each 30 June and 31 December;
- Payment In Kind ("PIK") amount repayable at maturity and subject to 9% interest, which is capitalised and added to the PIK amount on each 30 June and 31 December;
- accordion feature cancelled; and
- US\$12 million waiver fee payable to lenders on 31 March 2018.

The Group has concluded that the above amendments to the RCF are a substantial modification, resulting in the previous loan carrying amount of US\$1,002.3 million (US\$1,017.3 million principal less unamortised issuance costs of

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

US\$15.0 million) being derecognised and a new loan of US\$1,017.3 million being recognised at fair value. The difference of US\$15.0 million, which equates to the unamortised fees of the previous loan, is recognised as loss on extinguishment (see debt restructuring costs, note 4). The US\$12 million waiver fee along with US\$11.1 million of advisors' fees are directly attributable to the modification of the RCF and have also been expensed as part of the loss on extinguishment (see note 4).

At 31 December 2016, the carrying amount of the Credit Facility in the balance sheet was US\$1,037.5 million, comprising the loan principal drawn down of US\$1,037.3 million, plus US\$0.2 million of interest capitalised to the PIK amount (2015: US\$883.1 million, being loan principal drawn down of US\$902.3 million, less unamortised facility fees of US\$19.2 million).

At 31 December 2016, after allowing for letter of credit utilisation of US\$6.4 million, US\$156.3 million remained available for drawdown under the Credit Facility.

Tanjong Baram project finance loan

During the year ended 31 December 2015, the Group entered a five year US\$35 million loan facility in Malaysia. Interest is payable at USD LIBOR plus a margin of 2.25%.

Trade creditor loan

In October 2016, the Group borrowed US\$40 million under a loan facility with a trade creditor to fund the settlement of deferred amounts for the Kraken project. The loan, together with accrued interest at a rate of 7% per annum, is repayable in instalments in 2017 commencing on the earlier of 30 days after the date of first oil for the Kraken project and 30 June 2017. A bonus of up to US\$1.7 million is payable at 31 December 2017 if the oil price is above US\$75 per barrel in any period of 180 consecutive days between 1 October 2016 and 31 December 2017.

The bonus amount is accounted for as an embedded derivative, which had a valuation of US\$nil at 31 December 2016.

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

	2016			2015		
	<i>Principal</i>	<i>Fees</i>	<i>Total</i>	<i>Principal</i>	<i>Fees</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
High yield bond	677,482	(10,460)	667,022	650,000	(6,897)	643,103
Retail bond	191,258	(2,541)	188,717	229,688	(2,510)	227,178
Total bonds due after more than one year	868,740	(13,001)	855,739	879,688	(9,407)	870,281

High yield bond

In April 2014, the Group issued a US\$650 million high yield bond with an originally scheduled maturity of 15 April 2022 and paying a 7% coupon semi-annually in April and October.

On 21 November 2016, the high yield bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new high yield notes continue to accrue a fixed coupon of 7% payable semi-annually in arrears but interest will only be payable in cash if during the six months prior to an interest payment date average dated Brent is equal to or above US\$65 per barrel (the "Cash Payment Condition"). If the Cash Payment Condition is not satisfied in respect of an interest payment date, the interest due is not paid in cash and is capitalised and satisfied by the issue of additional high yield notes. US\$27.5 million of accrued, unpaid interest as at the restructuring date was capitalised and added to the principal amount of the new high yield notes issued pursuant to the scheme. The Company has the option to extend the maturity date of the new high yield notes to 15 April 2023. Further, the maturity date of the new high yield notes will be automatically extended to 15 October 2023 if the Credit Facility is not repaid or refinanced in full prior to 15 October 2020.

The amendments to the high yield bond are not deemed to be a substantial modification and therefore US\$5.0 million of advisors' fees directly attributable to the modification of the high yield bond have been adjusted against the carrying value of the bond and will be amortised over bond's remaining term.

The fair value of the high yield bond was estimated to be US\$488.0 million. The price quoted for the retail bond was used to estimate the fair value of the retail bond, on the basis that since the restructuring, both bonds carry similar rights.

Retail bond

In 2013 the Group issued a £155 million retail bond with an originally scheduled maturity of 15 February 2022 and paying a 5.5% coupon semi-annually in February and August. For the interest period commencing 15 August 2016, in accordance with the terms of the bond, the rate of interest increased to 7% following the determination of the Company's leverage ratio at 31 December 2015.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

On 21 November 2016, the retail bond was amended pursuant to a scheme of arrangement whereby all existing notes were exchanged for new notes. The new retail notes continue to accrue a fixed coupon of 7% payable semi-annually in arrears but interest will only be payable in cash if during the six months prior to an interest payment date average dated Brent is equal to or above US\$65 per barrel (the "Cash Payment Condition"). If the Cash Payment Condition is not satisfied in respect of an interest payment date, the interest due is not paid in cash and is capitalised and satisfied by the issue of additional retail notes. The maturity of the new retail notes was extended to 15 April 2022 and the Company has the option to extend the maturity date to 15 April 2023. Further, the maturity date of the new retail notes will be automatically extended to 15 October 2023 if the Credit Facility is not repaid or refinanced in full prior to 15 October 2020.

The amendments to the retail bond are not deemed to be a substantial modification and therefore US\$0.8 million of advisors' fees directly attributable to the modification of the high yield bond have been adjusted against the carrying value of the bond and will be amortised over bond's remaining term.

The bond had a fair value of US\$138.7 million (2015: US\$95.5 million). The fair value of the Sterling Retail Bond has been determined by reference to the price available from the market on which the bond is traded.

20. Other financial assets and financial liabilities

(a) Summary

	2016		2015	
	Assets US\$'000	Liabilities US\$'000	Assets US\$'000	Liabilities US\$'000
Commodity contracts designated as cash flow hedge (at fair value through OCI)	-	-	214,499	-
Commodity contracts (at fair value through profit or loss)	2,973	34,548	36,511	-
Foreign exchange contracts designated as cash flow hedges (at fair value through OCI)	-	-	-	1,023
Foreign exchange contracts (at fair value through profit or loss)	-	9,726	-	8,143
Interest rate swap designated as cash flow hedge (at fair value through OCI)	41	-	47	-
Other receivables (loans and receivables)	36,328	-	7,635	-
Other liabilities (at amortised cost)	-	-	-	3
Total current	39,342	44,274	258,692	9,169
Other receivables (loans and receivables)	23,429	-	15,262	-
Other liabilities (at amortised cost)	-	19,767	-	7,684
Total non-current	23,429	19,767	15,262	7,684

(b) Commodity contracts

The Group uses put and call options and swap contracts to manage its exposure to the oil price.

Oil price hedging

Purchased put options are designated as hedges of the Group's production. Where these contracts are effective from a hedge accounting perspective, any intrinsic value gains are deferred until such time as the production to which they relate is sold. Movements in the time value of these options are recognised in finance costs. A total of 8 million barrels of 2016 production (2015: 10 million barrels), was hedged via the purchase of put options, with a strike price of US\$68/bbl (2015: US\$65/bbl). Gains totalling US\$193.2 million (2015: US\$127.8 million) were included in realised revenue in the income statement in respect of these matured options. In addition, gains deferred in the prior year on the early close-out of effective hedges totalling US\$2.5 million (2015: US\$116.6 million) were recognised in realised revenue.

Mark to market losses on the time value element of these put options, totalling US\$5.4 million (2015: US\$119.8 million) have been recognised in finance costs. Of this amount, US\$36.5 million (2015: US\$70.0 million) has been recognised within the Group's "business performance" results as it relates to the amortisation of the option premium paid, over the life of the option. The balance of the mark to market losses have been recognised as an exceptional credit/charge in line with the Group's accounting policy.

In addition, fixed price oil swap contracts in respect of 2 million barrels of 2016 production, with a fixed price of \$66.64/bbl, were designated as effective hedges at 31 December 2015. Gains totalling US\$43.9 million were realised during 2016 in respect of these contracts, together with an unrealised gain of US\$5.8 million recognised as an exceptional item in the income statement.

There were no derivative oil contracts designated as effective hedges as at 31 December 2016.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

Commodity derivative contracts at fair value through profit or loss

Commodity derivative contracts not designated as effective hedges are designated as “At fair value through profit and loss” (“FVTPL”), and gains and losses on these contracts are recognised as a component of revenue. These contracts typically include bought and sold call options, sold put options and commodity swap contracts.

For the year ended 31 December 2016, losses totalling US\$35.3 million (2015: gains of US\$19.6 million) were recognised in respect of commodity contracts designated as FVTPL. This included gains totalling US\$16.2 million (2015: losses of US\$94.8 million) realised on contracts that matured during the year, and mark to market losses totalling US\$51.5 million (2015: gains of US\$114.4 million). Of the realised amounts recognised during the year, US\$31.2 million (2015: US\$111.6 million) was realised in business performance revenue in respect of the amortisation of premium income received on sale of these options. The premiums received are amortised into business performance revenue over the life of the option.

Business performance revenue for the year ended 31 December 2015 included US\$10.4 million of call option premium on options closed early, which would have been recognised in 2016 had these options not been closed early. The cost of closing these options was US\$1.4 million which was included in business performance revenue for the year ended 31 December 2015.

The mark to market of the Group’s open contracts as at 31 December 2016 was a loss of US\$40.5 million in respect of fixed price swap contracts for 5,998,000 barrels of 2017 production at a weighted average price of US\$51.34/bbl. The mark to market position on the Group’s other commodity derivative contracts (including contracts to purchase crude oil for trading purposes which are accounted for as a derivative), was an asset of US\$8.9 million.

(c) Foreign currency contracts

During the year ended 31 December 2015, the Group entered into various forward currency contracts to hedge its exposure in 2016 to operating and capital expenditure in Sterling, Euros and Norwegian Kroner. These contracts resulted a realised loss of US\$66.9 million and an unrealised gain of US\$7.7 million recognised in the income statement for the year ended 31 December 2016 (2015: similar contracts resulted in a realised loss of US\$3.2 million and an unrealised gain of US\$2.3 million).

During the year ended 31 December 2016, the Group entered into a structure covering the first half of 2017: the counterparty can elect to sell £47.5 million to EnQuest at an exchange rate of US\$1.4:£1 or purchase 1.3 million barrels of oil at US\$58 per barrel. Based on oil prices and exchange rates at 31 December 2016, the counterparty would choose to exchange currency, therefore this contract has been presented with other foreign currency contracts. The contract resulted in an unrealised loss of US\$9.3 million for the year ended 31 December 2016.

(d) Interest rate swap

During the year ended 31 December 2015, the Group entered an interest rate swap which effectively swaps 50% of floating USD LIBOR rate interest on the Malaysian loan into a fixed rate of 1.035% until 2018. The swap, which is effective from a hedge accounting perspective, has a net asset fair value of US\$0.04 million (2015: US\$0.05 million). The impact on the income statement is US\$0.06 million (2015: US\$0.03 million) recognised within finance expenses.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

(e) Income statement impact

The income/(expense) recognised for commodity, currency and interest rate derivatives are as follows:

Year ended 31 December 2016	<i>Revenue and other operating income</i>		<i>Cost of sales</i>		<i>Finance costs</i>	
	<i>Realised US\$'000</i>	<i>Unrealised US\$'000</i>	<i>Realised US\$'000</i>	<i>Unrealised US\$'000</i>	<i>Realised US\$'000</i>	<i>Unrealised US\$'000</i>
Call options	27,916	(16,654)	-	-	-	-
Put options	195,701	-	-	-	(36,458)	31,072
Commodity swaps	31,084	(37,823)	-	-	-	-
Futures	426	146	-	-	-	-
Purchase and sale of crude oil	676	2,827	-	-	-	-
Foreign exchange swap contracts	-	-	(1,034)	-	-	-
Other forward currency contracts	-	-	(65,865)	(1,584)	-	-
Interest rate swap	-	-	-	-	(58)	-
	255,803	(51,504)	(66,899)	(1,584)	(36,516)	31,072

Year ended 31 December 2015	<i>Revenue and other operating income</i>		<i>Cost of sales</i>		<i>Finance costs</i>	
	<i>Realised US\$'000</i>	<i>Unrealised US\$'000</i>	<i>Realised US\$'000</i>	<i>Unrealised US\$'000</i>	<i>Realised US\$'000</i>	<i>Unrealised US\$'000</i>
Call options	23,544	12,001	-	-	-	-
Put options	244,445	(920)	-	-	(70,022)	(49,769)
Commodity swaps	(6,819)	(9,149)	-	-	-	-
Foreign exchange swap contracts	-	-	1,174	144	-	-
Other forward currency contracts	-	-	(4,343)	2,110	-	-
Interest rate swap	-	-	-	-	(31)	-
	261,170	1,932	(3,169)	2,254	(70,053)	(49,769)

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

20. Other financial assets and financial liabilities (continued)

(f) Other receivables and liabilities

	Other receivables US\$'000	Other liabilities US\$'000
At 1 January 2015	22,103	71,878
Additions during the year	433	1,985
Change in fair value	(161)	-
Utilised during the year	-	(66,502)
Unwinding of discount	544	323
Foreign exchange	(22)	-
At 31 December 2015	22,897	7,684
Additions during the year	42,878	12,379
Change in fair value	2,151	(575)
Utilised during the year	(9,058)	-
Unwinding of discount	1,017	279
Foreign exchange	(128)	-
At 31 December 2016	59,757	19,767
<i>Comprised of:</i>		
Financial carry	-	7,388
Accrued waiver fee	-	12,000
KUFPEC receivable	13,968	-
BUMI receivable	43,517	-
Convertible loan note	2,272	-
Other	-	379
Total	59,757	19,767
<i>Classified as</i>		
Current	36,328	-
Non-current	23,429	19,767
	59,757	19,767

Other receivables

As part of the 2012 farm-out to the Kuwait Foreign Petroleum Exploration Company ("KUFPEC") of 35% of the Alma/Galia development, KUFPEC agreed to pay EnQuest a total of US\$23.3 million over a 36 month period after Alma/Galia is deemed to be fully operational. US\$9.1 million was received during the year ended 31 December 2016 and the remaining receivable, discounted to present value, had a carrying value of US\$14.0 million at 31 December 2016 (2015: US\$22.6 million). Unwinding of discount of US\$0.4 million is included within finance income for the year ended 31 December 2016 (2015: US\$0.5 million).

In August 2016, EnQuest agreed with Armada Kraken PTE Ltd ('BUMI') that BUMI would refund US\$65 million (EnQuest's share being US\$45.8 million) of a US\$100.0 million lease prepayment made in 2014 for the FPSO for the Kraken field. This refund is receivable in instalments, with US\$38 million receivable between February 2017 and February 2018, and the balance payable over a two-year period commencing three months after the date of first production from the Kraken field. Included within other receivables at 31 December 2016 is an amount of US\$43.5 million representing the discounted value of EnQuest's share of these repayments.

Other receivables include US\$2.3 million (31 December 2015: US\$0.2 million) representing the fair value of a convertible loan note from Ascent.

Other liabilities

As part of the agreement to acquire the PM8 asset in Malaysia, the Group agreed to carry Petronas Carigali for its share of exploration or appraisal well commitments. The discounted value of US\$7.4 million has been disclosed as a financial liability (2015: US\$7.7 million). Unwinding of the discount of US\$0.3 million is included within finance expense for the year ended 31 December 2016 (2015: US\$0.3 million).

In addition, included in other liabilities is an accrued "waiver fee" payable to the Credit Facility lenders in relation to the restructuring of the facility in November 2016 (see note 19). The amount is payable by March 2018.

The fair value of the Group's oil price related embedded derivatives is US\$nil (2015: US\$0.03 million).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

21. Fair value measurement

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

31 December 2016

	Total US\$'000	Quoted prices in active markets (Level 1) US\$'000	Significant observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000
Assets measured at fair value:				
<i>Derivative financial assets</i>				
Commodity derivative contracts ⁽ⁱ⁾	2,973	-	2,973	-
Interest rate swap ⁽ⁱⁱ⁾	41	-	41	-
<i>Other financial assets</i>				
Available-for-sale financial investments				
Quoted equity shares	171	171	-	-
<i>Loans and receivables</i>				
Other receivables ⁽ⁱ⁾	2,270	-	2,270	-
Liabilities measured at fair value:				
<i>Derivative financial liabilities</i>				
Commodity derivative contracts ⁽ⁱ⁾	34,548	-	34,548	-
Foreign currency derivative contracts ⁽ⁱⁱ⁾	9,726	-	9,726	-
<i>Liabilities for which fair values are disclosed (notes 19 and 24)</i>				
Interest bearing loans and borrowings	1,102,366	-	-	1,102,366
Obligations under finance leases	-	-	-	-
Sterling retail bond	138,727	138,727	-	-
High yield bond	491,405	-	491,405	-

(i) Valued using readily available information in the public markets and quotations provided by brokers and price index developers.

(ii) Valued by the counterparties, with the valuations reviewed internally and corroborated with market data.

There have been no transfers between Level 1 and Level 2 during the period.

31 December 2015

	Total US\$'000	Quoted prices in active markets (Level 1) US\$'000	Significant observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000
Assets measured at fair value:				
<i>Derivative financial assets</i>				
Commodity contracts	251,009	-	251,009	-
Interest rate swap	47	-	47	-
<i>Other financial assets</i>				
Available-for-sale financial investments				
Quoted equity shares	123	123	-	-
<i>Loans and receivables</i>				
Other receivables	22,897	250	-	22,647
Liabilities measured at fair value:				
<i>Derivative financial liabilities</i>				
Forward foreign currency contracts	9,165	-	9,165	-
<i>Other liability</i>				
Other liabilities	7,687	-	30	7,657
<i>Liabilities for which fair values are disclosed (notes 19 and 24)</i>				
Interest bearing loans and borrowings	917,223	-	917,223	-
Obligations under finance leases	36	-	36	-
Sterling retail bond	95,508	-	95,508	-
High yield bond	651,120	-	651,120	-

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

22. Provisions

	<i>Decommissioning provision US\$'000</i>	<i>Carry provision US\$'000</i>	<i>Cost recovery provision US\$'000</i>	<i>Contingent Consideration US\$'000</i>	<i>Surplus lease provision US\$'000</i>	<i>Total US\$'000</i>
At 1 January 2015	449,668	80,000	163,334	26,700	-	719,702
Additions during the year	70,581	-	-	-	27,448	98,029
Changes in estimates	(25,171)	(80,000)	(41,125)	2,307	-	(143,989)
Unwinding of discount	17,034	-	4,912	262	66	22,274
Utilisation	(5,342)	-	-	(3,000)	(888)	(9,230)
Foreign exchange	-	-	-	-	(209)	(209)
At 31 December 2015	506,770	-	127,121	26,269	26,417	686,577
Additions during the year	44,454	-	-	-	-	44,454
Acquisitions (note 29)	15,153	-	-	-	-	15,153
Changes in estimates	(76,855)	26,591	(40,389)	(4,056)	(22,604)	(117,313)
Unwinding of discount	10,724	-	2,797	367	9	13,897
Utilisation	(6,355)	(21,100)	-	-	(421)	(27,876)
Foreign exchange	-	-	-	-	(585)	(585)
At 31 December 2016	493,891	5,491	89,529	22,580	2,816	614,307
<i>Classified as</i>						
Current	9,701	5,491	5,433	9,056	360	30,041
Non-current	484,190	-	84,096	13,524	2,456	584,266
	493,891	5,491	89,529	22,580	2,816	614,307

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 2033 assuming no further development of the Group's assets. The liability is discounted at a rate of 2.25% (2015: 3.0%). The unwinding of the discount is classified as a finance cost (note 6).

Acquisitions during the year ended 31 December 2016 in relation to the additional interests in the Kraken and West Don fields acquired during the year were US\$7.6 million and US\$7.6 million, respectively (refer note 29).

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.

The Group enters into surety bonds principally to provide security for its decommissioning obligations. The surety bond facilities expiring in December 2016 were renewed for 12 months pursuant to the Restructuring, with surety bond providers committing to renew for a further 12 months upon their expiry in 2017 subject to on-going compliance with the terms of the Group's borrowings. At 31 December 2016, the Group held surety bonds totalling US\$118.5 million.

Carry provision

Consideration for the acquisition of 40% of the Kraken field from Cairn (previously Nautical) and First Oil in 2012 was through development carries. The 'contingent' carry is dependent upon a reserves determination which took place in 2016. At 31 December 2015, due to the low oil price environment, management's view was that no carry would be payable. When the reserve determination was finalised in 2016, the subsequent increase in oil price resulted in a carry amount of US\$26.6 million becoming due under the arrangement. As at 31 December 2016, US\$21.1 million of the carry had been paid and a liability for the remaining US\$5.5 million is recognised on the balance sheet. The development carry amount payable was adjusted through the carrying value of the Kraken field in property, plant and equipment (note 10).

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

Cost recovery provision

As part of the KUFPEC farm-in agreement, a cost recovery protection mechanism was agreed with KUFPEC to enable KUFPEC to recoup its investment to the date of first production. If on 1 January 2017, KUFPEC's costs to first production have not been recovered or deemed to have been recovered, EnQuest will pay to KUFPEC an additional 20% share of net revenue. This additional revenue is to be paid from January 2017 until the capital costs to first production have been recovered.

A provision has been made for the expected payments that the Group will make to KUFPEC. The assumptions made in arriving at the projected cash payments are consistent with the assumptions used in the Group's 2016 year-end impairment test, and the resulting cash flows were included in the determination of the recoverable value of the project. In establishing when KUFPEC has recovered its capital cost to first oil, the farm in agreement requires the use of the higher of the actual oil price, or \$90/bbl real, inflated at 2% per annum from 2012. These cash flows have been discounted at a rate of 2.25% (2015: 3.0%).

Contingent consideration

As part of the purchase agreement with the previous owner of the GKA assets, a contingent consideration was agreed based on Scolty/Crathes FDP approval and 'first oil'. EnQuest paid US\$3.0 million in November 2015, following FDP approval in October 2015. US\$9.0 million is due on the later of first oil or 31 March 2017 and US\$8.0 million is due on the later of one year after first oil or 30 January 2018. In addition, further payments will become due if the oil price rises above US\$75 per barrel on a linear basis up to US\$100 per barrel, up to a cap of US\$20.0 million. The cash flows have been discounted using a 3% discount rate. An option model has been used to value the element of the consideration that is contingent on the oil price and has resulted in a credit to the income statement of US\$0.7 million for the year ended 31 December 2016 (2015: nil). The carrying value of the Scolty Crathes contingent consideration at 31 December 2016 is US\$17.3 million (31 December 2015: US\$17.6 million).

In addition, there is consideration due subject to future exploration success. The provision at 31 December 2015 relating to this was US\$8.7 million and this has been reassessed for the year ended 31 December 2016 to US\$5.3 million. The reduction of US\$3.4 million, which has been released to the income statement, related to the results of the Eagle well drilled during the year, which indicate that no deferred consideration would be due on this prospect.

Surplus lease provision

In June 2015, the Group entered a 20 year lease in respect of the Group's office building in Aberdeen with part of the building subsequently being sub-let with a rent-free incentive. A provision has been recognised for the unavoidable costs in relation to the sub-let space. The provision has been discounted using a 2.25% discount rate. At 31 December 2016, the provision was US\$2.8 million (2015 US\$3.5 million).

In addition, the Group has an agreement to hire the Stena Spey drilling vessel in 2016. As at 31 December 2015, the vessel was not expected to be fully utilised over the contract period and a provision was recognised for the unavoidable costs of US\$22.9 million. Based on the actual vessel utilisation, the provision was reversed in full to the income statement during the year ended 31 December 2016.

23. Trade and other payables

	2016	2015
	US\$'000	US\$'000
Current		
Trade payables	232,277	230,475
Accrued expenses	183,753	274,436
Over-lift position	35,058	35,797
Joint venture creditors	456	765
Other payables	1,304	2,045
	452,848	543,518
Classified as:		
Current	410,261	543,518
Non-current	42,587	-
	452,848	543,518

Trade payables are normally non-interest bearing and settled on terms of between 10 and 30 days. The Group has arrangements with various suppliers to defer payment of a proportion of its capital spend. The majority of these deferred payments fall due in 2017 and the balance is expected to be fully settled by early 2019. 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.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

The carrying value of the Group's trade and other payables as stated above is considered to be a reasonable approximation to their fair value largely due to the short term maturities.

24. Commitments and contingencies

Commitments

(i) Operating lease commitments - lessee

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 20 years. The future minimum rental commitments under these non-cancellable leases are as follows:

	2016 US\$'000	2015 US\$'000
Not later than one year	4,296	5,694
After one year but not more than five years	17,412	20,926
Over five years	62,990	85,631
	84,698	112,251

Lease payments recognised as an operating lease expense during the year amounted to US\$4.8 million (2015: US\$4.1 million).

Under the Dons Northern Producer Agreement a minimum notice period of 12 months exists whereby the Group expects the minimum commitment under this agreement to be approximately US\$9.4 million (2015: US\$8.4 million).

(ii) Operating lease commitments - lessor

The Group sub-leases part of its Aberdeen office. The future minimum rental commitments under these non-cancellable leases are as follows:

	2016 US\$'000	2015 US\$'000
Not later than one year	202	150
After one year but not more than five years	5,877	5,242
Over five years	5,869	9,098
	11,948	14,490

(iii) Finance lease commitments

The Group had the following obligations under finance leases as at the balance sheet date:

	2016 Minimum payments US\$'000	2016 Present value of payments US\$'000	2015 Minimum payments US\$'000	2015 Present value of payments US\$'000
Due in less than one year	-	-	37	36
Due in more than one year but not more than five years	-	-	-	-
	-	-	37	36
Less future financing charges	-	-	(1)	-
	-	-	36	36

Finance leases with an effective borrowing rate of 2.37% (2015: 2.37%) were repaid during the year.

On 20 December 2013, the Group entered into a bareboat charter with Armada Kraken PTE Limited ("BUMI") for the lease of an FPSO vessel for the Kraken field. The lease will commence on the date of first production which is currently targeted to come onstream in H1 2017. BUMI have constructed the vessel and the Group made an initial prepayment of US\$100.0 million during 2014. In August 2016 it was agreed that US\$65.0 million of this prepayment would be refunded (refer note 20(f)).

(iv) Capital commitments

At 31 December 2016, the Group had capital commitments excluding the above lease commitments amounting to US\$267.3 million (2015: US\$433.5 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

Contingencies

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

The Group is currently engaged in a dispute with KUFPEC, the Group's field partner in respect of Alma/Galia. KUFPEC has commenced a court action in the High Court of Justice claiming an alleged breach of one of the Group's warranties provided under the Alma/Galia Farm-in Agreement and seeking damages of US\$91.0 million (the maximum breach of warranty claim permitted under the Alma/Galia Farm-in Agreement), together with interest. The court proceedings are currently stayed as the parties attempt to resolve the disputed issues. In the event that no agreement is reached and the court proceedings are recommenced, the Directors believe that a considerable period will elapse before any decision is reached by the courts.

The Directors consider the merits of the claim to be poor and the Group intends to defend itself vigorously. The Group has not made any provisions in respect of this claim as the Directors believe the claim is unlikely to be successful; and in any event the Directors believe the chances of an outcome exposing the Group to material damages are remote. There can, however, be no assurances that this claim will not ultimately be successful, or that the Group would not otherwise seek to enter into a settlement or compromise in respect of this claim, or that in the event of any such circumstances the Group would not incur costs and expenses in excess of its estimates.

The Group is also currently engaged in discussions with EMAS, one of the Group's contractors on Kraken who performed the installation of a buoy and mooring system, in relation to the payment of approximately US\$20.0 million of variation claims which EMAS claims is due as a result of soil conditions at the work site being materially different from those reasonably expected to be encountered based on soil data previously provided. The Group is confident that such variation claims are not valid and that accordingly such amount is not due and payable by the Group under the terms of the contract with EMAS. No formal court action has been commenced or threatened by EMAS. The parties are currently in discussions pursuant to the dispute resolution process under the contract.

25. Related party transactions

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

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

All sales to and purchases from related parties are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management. With the exception of the transactions disclosed below, there have been no transactions with related parties who are not members of the Group during the year ended 31 December 2016 (2015: none).

Share subscription

Subscription for new ordinary shares pursuant to the placing and open offer (note 17) at the issue price of £0.23 per share:

- Double A Limited ("Double A"), a company beneficially owned by the extended family of Amjad Bseisu, took up its entitlement in the open offer, subscribing for 31,735,702 shares;
- directors and key management personnel took up their entitlement in the open offer, subscribing for 423,540 new ordinary shares;
- key management personnel participated in the placing, subscribing for 412,608 new ordinary shares; and
- close family members of Amjad Bseisu and their associated undertakings participated in the placing, subscribing for 2,940,304 shares.

Commission related to the placing

Double A made a commitment to subscribe for up to 91,224,079 new Ordinary shares under the placing (subject to clawback to satisfy valid applications under the open offer). In consideration of Double A's commitment, the Company agreed to pay Double A commission equal to 1% of the product of (i) the number of new ordinary shares which are subsequently clawed back following completion of the open offer and (ii) the issue price (the "Commission"). The Commission is consistent with those paid in respect of other participants in the placing. The Commission of US\$0.2 million due to Double A was outstanding as at 31 December 2016 and settled subsequently.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

Office sublease

During the year ended 31 December 2016, the Group recognised US\$0.1 million of rental income in respect of an office sublease arrangement with AA Capital Analysts Limited, a company whose majority controlling shareholder is Double A Limited.

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:

	2016 US\$'000	2015 US\$'000
Short term employee benefit	5,002	4,521
Share-based payments	3,770	1,896
Post employment pension benefits	33	37
	8,805	6,454

26. Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities comprise trade and other receivables, cash and short term deposits, interest-bearing loans, borrowings and finance leases, derivative financial instruments and trade and other payables. The main purpose of 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 2016 and 2015 using the amounts of debt and other financial assets and liabilities held at those reporting dates.

Commodity price risk – oil prices

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

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

Details of the commodity derivative contracts entered into during, and on hand at the end of 2016, are disclosed in note 20.

The following table summarises the impact on the Group's pre-tax profit and total equity of a reasonably possible change in the Brent oil price, on the fair value of derivative financial instruments (primarily fixed price swaps over a total of 6.0 million barrels as at 31 December 2016), with all other variables held constant. As the derivatives on hand at 31 December 2016 have not been designated as hedges, there is no impact on equity.

	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 2016	(58,000)	60,000	-	-
31 December 2015	(10,000)	10,000	(55,000)	55,000

Foreign currency risk

The Group is exposed to foreign current risk arising from movements in currency exchange rates. Such exposure arises from sales or purchases in currencies other than the Group's functional currency (US dollars) and the bond which is denominated in Sterling. To mitigate the risks of large fluctuations in the currency markets, the hedging policy agreed by the Board allows for up to 70% of non-US Dollar portion of the Group's annual capital budget and operating expenditure to be hedged. For specific contracted capital expenditure projects, up to 100% can be hedged. Approximately 1% (2014: 1%) of the Group's sales and 81% (2015: 85%) of costs (including capital expenditure) are denominated in currencies other than the functional currency.

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

As at 31 December 2016, the Group's only foreign currency hedging in place was a NOK37.1 forward contract with a strike price of NOK8.61/£1 which matures in Q1 2017. In addition, the Group had entered into a "chooser" option in June 2016, hedging either 1.3MMbbls of H1 2017 production at \$58/bbl or GBP47.5 million of H1 GBP exposure at a fixed rate of \$1.40/GBP. The counterparty has the right to choose whether to settle the oil price hedge or the currency hedge each month. A further chooser option was entered into in January 2017, hedging either 1.5MMbbls at \$60/bbl or GBP66.0 million at a fixed rate of \$1.1975/GBP.

The Group also enters into foreign currency swap contracts from time to time to manage short term exposures.

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

	<i>Pre-tax profit</i>	
	Year ended	Year ended
	31 December 2016	31 December 2015
	US\$'000	US\$'000
Change in United States Dollar rate		
+10%	(48,250)	(58,173)
-10%	48,250	58,173

Credit risk

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

In addition there are credit risks of commercial counterparties including exposures in respect of outstanding receivables. The Group trades only with recognised international oil and gas operators and at 31 December 2016 there were US\$5.6 million of trade receivables past due (2015: nil), US\$8.6 million of joint venture receivables past due (2014: US\$1.5 million) and nil (2014: US\$2.0 million) of other receivables past due but not impaired. Subsequent to year-end, US\$10.9 million of these outstanding balances have been collected. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

	2016	2015
	US\$'000	US\$'000
Ageing of past due but not impaired receivables		
Less than 30 days	6,101	709
30-60 days	-	-
60-90 days	-	-
90-120 days	656	-
120+ days	7,473	771
	14,230	1,480

At 31 December 2016, the Group had three customers accounting for 90% of outstanding trade receivables (2015: three customers, 65%) and five joint venture partners accounting for 90% of joint venture receivables (2015: five joint venture partners, 77%).

Liquidity risk

The Group monitors its risk to a shortage of funds by reviewing its cash flow requirements on a regular basis relative to its existing bank facilities and the maturity profile of its borrowings. Specifically the Group's policy is to ensure that sufficient liquidity or committed facilities exist within the Group to meet its operational funding requirements and to ensure the Group can service its debt and adhere to its financial covenants.

On 21 November 2016, the Company concluded a comprehensive financial restructuring comprising: amendments to the credit facility, high yield bond and retail bond; renewal of surety bond facilities; and a placing and open offer (the "Restructuring"). The terms of the Restructuring are set out further in notes 17 and 19. The Restructuring was designed to provide the Group with a stable and sustainable capital structure, reduced cash debt service obligations and greater liquidity. In particular, the Restructuring is expected to enable the Group to complete the Kraken and Scolty/Crathes developments. At 31 December 2016, US\$156.3 million was available for draw down under the Group's Credit Facility (see note 19).

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

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

Year ended 31 December 2016	<i>On demand</i> <i>US\$'000</i>	<i>Up to 1 year</i> <i>US\$'000</i>	<i>1 to 2 years</i> <i>US\$'000</i>	<i>2 to 5</i> <i>years</i> <i>US\$'000</i>	<i>Over 5</i> <i>years</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
Loans and borrowings	-	122,590	260,017	960,880	-	1,343,487
Bonds ⁽¹⁾	-	56,069	60,812	182,435	901,377	1,200,693
Trade and other payables	258,828	136,564	45,378	-	-	440,770
Other financial liabilities	-	-	7,641	-	-	7,641
	258,828	315,223	373,848	1,143,315	901,377	2,992,591

(1) Maturity analysis profile for the Group's bonds includes semi-annual coupon interest. This interest is only payable in cash if the average dated Brent oil price is equal to or greater than US\$65 per barrel for the six months preceeding the coupon payment date (see note 19).

Year ended 31 December 2015	<i>On demand</i> <i>US\$'000</i>	<i>Up to 1 year</i> <i>US\$'000</i>	<i>1 to 2 years</i> <i>US\$'000</i>	<i>2 to 5</i> <i>years</i> <i>US\$'000</i>	<i>Over 5</i> <i>years</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
Loans and borrowings	-	52,042	56,466	956,522	-	1,065,030
Bonds	-	58,140	58,140	174,419	955,223	1,245,922
Obligations under finance leases	-	37	-	-	-	37
Trade and other payables	543,518	-	-	-	-	543,518
Other financial liabilities	-	-	8,250	-	-	8,250
	543,518	110,219	122,856	1,130,941	955,223	2,862,757

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

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

Year ended 31 December 2016

	<i>On demand US\$'000</i>	<i>Less than 3 months US\$'000</i>	<i>3 to 12 months US\$'000</i>	<i>1 to 2 years US\$'000</i>	<i>Over 2 years US\$'000</i>	<i>Total US\$'000</i>
Commodity derivative contracts	146	(10,626)	(27,419)	-	-	(37,899)
Foreign exchange forward contracts	-	(4,741)	-	-	-	(4,741)
Foreign exchange forward contracts	-	4,308	-	-	-	4,308
Chooser contract	-	(3,711)	(3,711)	-	-	(7,422)
Interest rate swaps	-	1	3	2	-	6
	146	(14,769)	(31,127)	2	-	(45,748)

Year ended 31 December 2015

	<i>On demand US\$'000</i>	<i>Less than 3 months US\$'000</i>	<i>3 to 12 months US\$'000</i>	<i>1 to 2 years US\$'000</i>	<i>Over 2 years US\$'000</i>	<i>Total US\$'000</i>
Commodity derivative contracts	-	38,819	203,306	-	-	242,125
Foreign exchange forward contracts	-	163,651	545,195	-	-	708,846
Foreign exchange forward contracts	-	(163,651)	(546,241)	-	-	(709,892)
Interest rate swaps	-	(32)	(82)	(77)	(34)	(225)
	-	38,787	202,178	(77)	(34)	240,854

Capital management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as in the Group Statement of Changes in Equity.

The primary objective of the Group's capital management is to optimise the return on investment, by managing its capital structure to achieve capital efficiency whilst also maintaining flexibility. The Group regularly monitors the capital requirements of the business over the short, medium and long term, in order to enable it to foresee when additional capital will be required. On 21 November 2016, the Group completed a comprehensive package of financial restructuring measures, refer notes 17 and 19 for further details .

The Group has approval from the Board to hedge foreign exchange risk on up to 70% of the non US Dollar portion of the Group's annual capital budget and operating expenditure. For specific contracted capex projects, up to 100% can be hedged. In addition, there is approval from the Board to hedge up to 75% of annual production in year 1, 60% in year 2 and 50% in year 3. This is designed to reduce the risk of adverse movements in exchange rates and prices eroding the return on the Group's projects and operations.

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

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

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

	2016	2015
	US\$'000	US\$'000
Loans, borrowings and bond (i) (A)	1,971,106	1,816,965
Cash and short term deposits	(174,634)	(269,049)
Net debt/(cash) (B)	1,796,472	1,547,916
Equity attributable to EnQuest PLC shareholders (C)	818,852	667,199
Profit/(loss) for the year attributable to EnQuest PLC shareholders (D)	185,212	(759,484)
Profit for the year attributable to EnQuest PLC shareholders excluding exceptionals (E)	121,510	127,817
Gross gearing ratio (A/C)	2.4	2.7
Net gearing ratio (B/C)	2.2	2.3
Shareholders' return on investment (D/C)	23%	(114%)
Shareholders' return on investment excluding exceptionals (E/C)	15%	19%
<i>(i) Principal amounts drawn, excludes netting off of fees (refer note 19)</i>		

27. Post balance sheet events

On 24 January 2017, EnQuest announced that it had agreed to acquire from BP an initial 25% interest in the Magnus oil field ("Magnus") representing c.15.9 MMboe of additional net 2P reserves (gross reserves of 63.4 MMboe) with net production of 4.2 Mboepd in 2016 (gross production 16.6 Mboepd) as well as a 3.0% interest in the Sullom Voe oil terminal and supply facility ("SVT"), 9.0% of Northern Leg Gas Pipeline ("NLGP"), and 3.8% of Ninian Pipeline System ("NPS") (collectively the "Transaction Assets"). EnQuest currently has existing interests of 3.0% in SVT, 5.9% in NLGP and 2.7% in NPS.

EnQuest will become the operator of the Transaction Assets; the transaction is subject to certain regulatory, government authority, counterparty and partner consents.

The consideration for these interests is US\$85.0 million (subject to working capital and other adjustments), which will be funded by deferred consideration payable from the cash flow of the Transaction Assets. There are no requirements for cash from EnQuest other than as generated from the Transaction Assets. In addition, EnQuest has an option to acquire the remaining 75% of Magnus and BP's interest in the associated infrastructure. EnQuest also has the option to receive US\$50 million from BP in exchange for undertaking the management of the physical decommissioning activities for Thistle and Deveron and making payments by reference to 6% of the gross decommissioning costs of Thistle and Deveron fields.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

28. Subsidiaries

At 31 December 2016, EnQuest PLC had investments in the following subsidiaries:

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

(i) Held by subsidiary undertaking.

Registered office addresses:

¹ Suite 2200, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9

² Fabrikkeveien 9, Stavanger, 4033, Norway

³ Annan House, Palmerston Road, Aberdeen. Scotland, AB11 5QP, United Kingdom

⁴ Ground Floor, Colomberie House, St Helier, JE4 0RX, Jersey

⁵ c/o TMF, 10th Floor, Menara Hap Seng, No 1 & 3, Jalan P. Ramlee 50250 Kuala Lumpur, Malaysia

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

29. Acquisition of interests in joint arrangements

The net assets acquired during the year were recognised as follows:

	15.15% interest in West Don	10.5% interest in Kraken	Total
	US\$'000	US\$'000	US\$'000
Property, plant and equipment (note 10)	7,096	33,599	40,695
Prepayments and accrued income	-	10,500	10,500
Under-lift position	3,271	-	3,271
Deferred tax asset (note 7)	268	-	268
Accrued expenses	(538)	(31,581)	(32,119)
Provision for decommissioning (note 22)	(7,633)	(7,520)	(15,153)
Net identifiable assets	2,464	4,998	7,462

Kraken

In February 2016, the Group acquired an additional 10.5% interest in the Kraken development asset from First Oil PLC ("First Oil") for nominal consideration. As a result, EnQuest's working interest in this joint arrangement increased to 70.5%. EnQuest also waived its right to reclaim its US\$5.0 million share of cash calls paid on behalf of First Oil in January and February 2016. Although the asset has proven 2P reserves, as the field is yet to achieve first oil and the necessary infrastructure to produce oil and generate revenues is not yet in place, the Group does not consider that the activity of this joint arrangement constitutes a business, as defined by IFRS 3, and therefore the Group has recognised the individual identifiable assets acquired and liabilities assumed, with their cost allocated based on their relative fair values as shown above.

West Don

In August 2016, the Group acquired an additional 15.15% interest in the West Don producing field from First Oil, resulting in a revised working interest of 78.6% in this joint arrangement. As the asset has proven 2P reserves and is currently in production and generating revenues, the Group considers that the activity of this joint arrangement constitutes a business and therefore the Group has applied the principles of business combinations accounting from IFRS 3 to the acquisition of the additional interest.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table above. The consideration of US\$2.5 million, which was satisfied through a reduction of receivable balances, equalled the fair value of identifiable assets acquired and liabilities assumed and therefore no goodwill arose on the acquisition. The additional interest in the West Don joint arrangement contributed US\$2.7 million revenue and a US\$0.9 million loss to the Group's profit for the period between the date of the acquisition and the balance sheet date. If this acquisition had been completed on the first day of the financial year, US\$6.0 million revenue and a US\$1.5 million loss would have been contributed to the Group's profit for the year ended 31 December 2016.

EnQuest PLC

NOTES TO THE GROUP FINANCIAL STATEMENTS (continued) For the year ended 31 December 2016

30. Cash generated from operations

		<i>Year ended 31 December 2016 US\$'000</i>	<i>Year ended 31 December 2015 US\$'000</i>
	<i>Notes</i>		
Profit/(loss) before tax		217,244	(1,340,941)
Depreciation	5(d)	3,930	7,017
Depletion	5(b)	241,879	302,687
Exploration costs impaired and written off	5(c)	776	9,059
Net impairment (reversal)/charge to oil and gas assets	4	(147,871)	1,224,463
Loss on disposal of land and buildings	4	-	8,473
Write down of receivable	4	-	4,350
Write down of inventory	4	-	13,598
Loss on disposal of intangible oil and gas assets	4	16,178	2,264
Impairment (reversal)/charge to investments	4	(48)	566
Share-based payment charge	5(g)	8,452	5,701
Change in deferred consideration	5(e)	(4,056)	2,307
Change in surplus lease provision	22	(23,025)	26,560
Change in decommissioning provision	5(e)	(1,627)	-
Hedge accounting deferral	20	(2,456)	(119,055)
Amortisation of option premiums	20	(31,210)	(111,572)
Unrealised loss/(gain) on financial instruments	5(a)(b)	53,088	(3,906)
Unrealised exchange gains	5(e)	(51,867)	(15,030)
Net finance (income)/expense	6	127,835	225,517
Operating profit before working capital changes		407,222	242,058
Decrease/(increase) in trade and other receivables		26,579	(76,429)
(Increase)/decrease in inventories		(7,356)	10,085
(Decrease)/increase in trade and other payables		(18,198)	45,980
Cash generated from operations		408,247	221,694

