Company Registration No. 972618

Suncor Energy UK Limited

Annual Report and Financial Statements

31 December 2016

Suncor Energy UK Limited

Annual report and financial statements 2016

Contents

Suncor Energy UK Limited

Annual Report and financial statements 2016

Officers and professional advisors

Directors
R A Davie
S Trueman
D Zeller (Appointed 1st February 2016)

Secretary
Oakwood Corporate Services Limited

Registered Office
c/o Oakwood Corporate Services Limited
3rd Floor, 1 Ashley Road
Altrincham
Cheshire
WA14 2DT

Bankers
Bank of America

Solicitors
Allen & Overy
1 Bishop Square
London
E1 6AO

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Capitol
431 Union Street
Aberdeen
AB11 6DA

Suncor Energy UK Limited

Strategic report

The Company continues to pursue its strategy of improving the profitability of existing core areas, delivering profitable growth in its current portfolio and targeting new opportunities with focus on long life assets and building a balanced exploration program.

Overall net production in barrels of oil equivalent per day (boepd) for 2016 was 64,627 (2015: 64,600 boepd).

Hydrocarbon reserves (unaudited)

Movements in commercial reserves, defined as proven developed and undeveloped hydrocarbon reserves, all of which are located within the United Kingdom Continental Shelf, were as follows:

	Oil MMbbls	**Gas Bcf**	**NGLs MMbbls**	**Total MMboe**
Opening reserves (proved)				
- developed	57.6	2.2	0.1	58.1
- undeveloped	9.9	0.6	-	10.0
Revisions of previous estimates	24.0	3.1	0.2	24.7
Production	(23.0)	(3.3)	(0.1)	(23.7)
Closing reserves (proved)	68.5	2.6	0.2	69.1
Closing reserves (proved) made up of:				
- developed	68.5	2.6	0.2	69.1
- undeveloped	-	-	-	-
Total closing reserves (proved)	68.5	2.6	0.2	69.1

Source: Sproule evaluation of the reserves of Suncor Energy Inc's North Sea properties

Definitions:	MMbbls	Millions of barrels
	Bcf	Billions of cubic feet
	MMboe	Millions of barrels of oil equivalent
	boepd	Barrels of oil equivalent per day

Fields

Focus areas for Buzzard in 2016 were sustaining improvements in the production efficiency and increasing water injection to reservoir. A major plant maintenance turnaround was undertaken in September and October 2016 with 38 days downtime. Buzzard production actuals for the year were 15% above budget largely due to better than expected reservoir performance. There was no development drilling in the year.

Buzzard Phase II development project continued in 2016 with the Concept Select milestone within the Suncor Assurance Process passed in December. Gate 2 for this project was passed in April 2017 at which point the project was split into two; an infill drilling program from the existing Buzzard platform (sanctioned July 2017) and a subsea tie-back which will bring in new reserves from the Northern Terrace (Gate 3 scheduled for April 2018).

Golden Eagle Area Development (GEAD) continued to perform very well in 2016 with plateau production throughout the year as the development drilling program continued. The plateau production levels were increased from 70 KBPD to 76 KBPB Gross production in April at no additional cost by taking advantage of the platform's full design capability. Development drilling continued through the year and 5 additional wells were completed until the rig was demobilized in October.

A 30% participating interest in the UK North Sea Rosebank project was acquired in August, 2016 purchased from OMV UK Limited. The Rosebank project, located approximately 80 miles (130 kilometres) northwest of the Shetland Islands in water depths of approximately 3,600 feet (1,110 metres), was discovered in December 2004 and is considered one of the best and largest remaining undeveloped resources in the U.K. North Sea. The project is currently in the Front End Engineering and Design (FEED) phase and has a design capacity of 100,000 barrels of crude oil and 80 million cubic feet of natural gas per day. The project is complementary to Suncor's existing UK portfolio. Subsequent to the close of this transaction, joint venture parties are now; operator Chevron North Sea Limited (40 per cent), Suncor (30 per cent), Siccar Point Energy (20 per cent) and DONG E&P (U.K.) Limited (10 per cent).

Production

The Company's net share of production in 2016 was 23.7 MMboe (2015: 23.6 MMboe), an increase of 0.4% from the previous year.

Exploration

Pacific gas discovery was evaluated and transitioned to the GEAD Asset post Gate review.

Suncor conducted broad semi-regional exploration studies in the Central North Sea basin. The studies conducted consisted mainly of interpreting large areas (10s of km's) of 2D and 3D seismic datasets and evaluating previously drilled wells in the area to gain overall understanding of the regions remaining potential prospects. The exploration studies included evaluation of the area around the Halibut Horst and the Greater Auk area. Suncor decided not to enter into Auk area due to high risk nature of the open acreage.

Suncor evaluated several licences around the GEAD and Buzzard developments for future tieback potential including some new prospectivity mapped to the south of the Halibut Horst. These prospect evaluations are to be shared with the Buzzard / GEAD partnerships in order for operator Nexen to progress any further work.

Suncor relinquished small non-operated licence P300 in Cromarty area – no significant prospectivity mapped on licence.

Suncor Energy UK Limited

Strategic Report (continued)

Exploration (continued)

Suncor relinquished 50% of non-operated licence P1893 in Griffon area – no significant prospects mapped on these areas.

Suncor evaluated various exploration farm-in opportunities, none of which were taken forward to participation.

Capital Investment

Capital investment of £88 million (2015: £107 million) was undertaken during the year; primarily the investment is on Buzzard and Golden Eagle Area Development Project.

Staff

The average monthly number of staff employed by the Company during the year was 31 (2015: 36).

Supplier Payment Policy

The Company's policy is to set terms of payment with suppliers when agreeing the terms of each transaction and to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 31 December 2016 were equivalent to 2 days purchases (2015: 1.5), based on the average daily amount invoiced by suppliers during the year.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee Consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings and the Company website and publications. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Key performance indicators (KPIs)

Key results	**2016**	**2015**	**Increase/(decrease)**
Production (boepd)	64,626.7	64,599.5	27.2
Turnover (£ million)	699.3	774.5	(75.2)
Gross profit (£ million)	386.0	468.1	(82.1)
Operating profit (£ million)	359.7	448.7	(89.0)
Profit before taxation (£ million)	374.2	446.0	(71.8)
Profit for the financial year(£ million)	292.1	331.6	(39.5)

Key statistics : £ per boe	**2016**	**2015**	**(Decrease)/increase**
Effective realised price:			
- crude oil	30.61	34.22	(3.61)
- gas : per mcf	2.56	3.04	(0.48)
- NGL	16.11	18.27	(2.16)
Depreciation, depletion and amortisation	10.22	8.14	2.08
Administration expenses	1.15	0.86	0.29

Key statistics : Staff	**2016**	**2015**	**(Decrease)**
Number of staff	31	36	(5)

Profit and loss account

2016 was less profitable than the previous year mainly due to decreased hydrocarbon sales revenues, due to the decrease in the oil price in 2016 and the movement in over/underlift of barrels of oil produced, partially offset by lower exploration costs expensed.

Balance sheet

The Company's net assets have increased by £23.2 million to £586.4 million in 2016 (2015 - £563.2 million). The financial position of the Company remains stable and the current developments are intended to maintain that position.

Financial risk management objectives and policies

The Company's main activities expose it to a number of financial risks including price risk, foreign exchange risk and liquidity risk. There were no unrealised hedges outstanding at 31 December 2016. The Board will, however, continue to closely monitor the risks associated with commodity price, and currency fluctuations and manage these with regard to the Company's commitments.

Foreign Exchange risk

The Company's activities expose it primarily to the financial risks in changes of foreign currency exchange rates. The Company may enter into forward exchange contracts as necessary although primarily any foreign currency exposure is managed at corporate level in compliance with Suncor group policies.

Price risk

The Company is exposed to commodity price risk. The Company does not manage its exposure to commodity prices due to cost benefit considerations. The commodity price risk associated with the Company is managed at a broader portfolio at a corporate level.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term inter-company debt finance. These are typically at fixed interest rates and therefore the Company is not significantly exposed to interest rate risk.

Other principal risks and uncertainties

Factors that may affect results include reservoir performance and facility reliability. Reservoir performance is managed by monitoring static data and dynamic simulation. Production efficiency is maintained by controlling planned maintenance, monitoring and acting on unplanned maintenance issues and trends. Drilling campaigns are approved on the basis of economic resource addition which includes assessment of technical and drilling uncertainties. Overall catastrophic risk is mitigated by having insurances in place, such as business interruption insurance.

Summary and Outlook

The Company will continue to seek to maximise value both from its existing portfolio of assets and from any other investment or divestment opportunities which may arise. Additionally, it will look for and exploit other value adding opportunities in the UK sector of the North Sea as well as to provide technical and support services to associated companies.

Approved by the Board of Directors
and signed on behalf of the Board

R A Davie
Director

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Suncor Energy UK Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2016.

Principal activities

The principal activities of the Company are oil and gas exploration, development and production. The Company also provides technical and commercial support to other companies within Suncor's International and Offshore Business Unit. It also acts as a holding company to Petro-Canada Energy North Sea Limited.

Business review

The directors are required by the Companies Act to set out in this report a fair review of the business of the Company during the financial year ended 31 December 2016 and of the position of the Company at the end of the year, including a description of the principal risks and uncertainties facing the Company ('business review'). The information that fulfils the requirements of the business review can be found within the Strategic report on pages 3 to 7. The Report on the year also includes details of expected future developments in the business of the Company, financial risk management objectives and policies and details of the key performance indicators used by management.

Results and dividends

The Company's profit for the financial year was £292.1 million (2015: £331.6 million). Dividends of £260.0 million were paid during the year to the Company's immediate parent company, Suncor Energy UK Holdings Limited (2015: £320.0 million). No further dividend is proposed by the directors.

As at 31 December 2016 the company had capital commitments of £2.1 million primarily relating to the development of the Golden Eagle Area Development Asset.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

R A Davie	(British)	
S Trueman	(British)	
D Zeller	(Canadian)	(Appointed 1st February 2016)
M Thalgott	(Canadian)	(Resigned 1st February 2016)

The directors who held office at the end of the financial year do not have any interests in the shares of the Company or any other UK group company.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Charitable and political contributions

The Company contributed £0.02M to charities (2015 - £0.02M). Most community support activities are funded through a corporate budget. No political contributions were made.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Suncor Energy UK Limited

Directors' report (continued)

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

R A Davie

Independent auditors' report to the members of Suncor Energy UK Limited

Report on the financial statements

Our opinion

In our opinion, Suncor Energy UK Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Independent auditors' report to the members of Suncor Energy UK Limited (continued)

What an audit of financial statements involves (continued)

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Richard Spilsbury (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
27 September 2017

Suncor Energy UK Limited

Profit and loss account

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover	5	**699,344**	774,507
Cost of sales	6	**(313,359)**	(306,412)
Gross profit		**385,985**	468,095
Administrative expenses	7	**(27,045)**	(20,190)
Reversal of impairment	14	**722**	829
Operating profit		**359,662**	448,734
Interest receivable and similar income	8	**1,484**	1,350
Interest payable and similar expenses	9	**13,025**	(4,048)
Profit before taxation		**374,171**	446,036
Tax on profit	11	**(82,053)**	(114,461)
Profit for the financial year		**292,118**	331,575

The Company's results are all derived from continuing activities in both years.

There are no material differences between the profit before taxation and the retained profit for the financial year stated above and their historical cost equivalents.

Suncor Energy UK Limited

Statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Profit for the financial year		**292,118**	331,575
Items that will not be reclassified to P&L			
Actuarial loss relating to pension scheme	23	**(12,114)**	(2,697)
UK deferred tax attributable to actuarial result	19	**4,886**	1,348
Adjustment to actuarial result due to tax rate change	19	**(1,704)**	(1,721)
Total comprehensive income for the financial year		**283,186**	328,505

Suncor Energy UK Limited

Balance sheet

As at 31 December 2016

	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	13	**32,325**	24,358
Tangible assets	13	**857,539**	1,022,515
Investments	14	**136,332**	135,610
		1,026,196	1,182,483
Current assets			
Stocks	15	**15,717**	21,428
Debtors	16	**399,559**	295,858
Cash at bank and in hand		**-**	407
		415,276	317,693
Creditors: amounts falling due within one year	17	**(236,890)**	(209,118)
Net current assets		**178,386**	108,575
Total assets less current liabilities		**1,204,582**	1,291,058
Creditors: amounts falling due after more than one year	18	**(206,992)**	(206,992)
Provisions for liabilities	19	**(386,298)**	(507,132)
Net assets excluding pension deficit		**611,292**	576,934
Pension deficit	23	**(24,935)**	(13,763)
Net assets including pension deficit		**586,357**	563,171
Capital and reserves			
Called up share capital	20	**11,523**	11,523
Share premium account		**52,493**	52,493
Capital redemption reserves		**1,649**	1,649
Other reserves		**295,287**	295,287
Profit and loss account		**225,405**	202,219
Total shareholders' funds	21	**586,357**	563,171

Company number 972618
The financial statements from pages 14 to 45 were approved by the Board of Directors on 27 September 2017
Signed on behalf of the Board of Directors

R A Davie
Director

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Suncor Energy UK Limited

Statement of changes in equity

For the year ended 31 December 2016

	Attributable to shareholders' of the company				
	Called up Share capital £000	**Share premium account £000**	**Other reserves £000**	**Profit and loss account £000**	**Total shareholders' funds £000**
At 1 January 2015	11,523	52,493	296,936	193,714	554,666
Profit for the financial year	-	-	-	331,575	331,575
Other comprehensive loss for the year	-	-	-	(3,070)	(3,070)
Total comprehensive income for the financial year	**-**	**-**	**-**	**328,505**	**328,505**
Dividends paid to equity holders of the company (Note 12)	-	-	-	(320,000)	(320,000)
Total distributions to owners of the company, recognised directly in equity	**-**	**-**	**-**	**(320,000)**	**(320,000)**
Balance at 31 December 2015	**11,523**	**52,493**	**296,936**	**202,219**	**563,171**
Profit for the financial year	-	-	-	292,118	292,118
Other comprehensive loss for the year	-	-	-	(8,932)	(8,932)
Total comprehensive income for the financial year	**-**	**-**	**-**	**283,186**	**283,186**
Dividends paid to equity holders of the company (Note 12)	-	-	-	(260,000)	(260,000)
Total distributions to owners of the company, recognised directly in equity	**-**	**-**	**-**	**(260,000)**	**(260,000)**
Balance at 31 December 2016	**11,523**	**52,493**	**296,936**	**225,405**	**586,357**

Suncor Energy UK Limited

Notes to the financial statements

For the year ended 31 December 2016

1. General information

Suncor Energy UK Limited (the company) is a limited liability company, incorporated and domiciled in England. The principal activity of the company is the exploration, development and production of oil and gas. The company also provides technical and commercial support to Suncor's International and Offshore Business Unit.

The company's principal place of business is Aberdeen, United Kingdom. The company's registered office is c/o Oakwood Corporate Services Limited, 3rd Floor, 1 Ashley Road, Altrincham, Cheshire, WA14 2DT.

The immediate parent company is Suncor Energy UK Holdings Limited. The ultimate parent company is Suncor Energy Inc., which is incorporated in Canada.

Suncor Energy Inc. is the parent undertaking of the largest company of undertakings to consolidate these financial statements as at 31 December 2016. The consolidated financial statements of Suncor Energy Inc. are available from:

Suncor Energy Inc. 150 – 6th Avenue SW, Calgary, Alberta, Canada, T2P 3E3

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) as applicable to companies using FRS 101. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurements and disclosure requirements of EU-adopted IFRS.

The company is a qualifying entity for the purposes of FRS 101. Note 24 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The Company has adopted the intermediate parent exemption under section 401 of the Companies Act 2006, hereby it is not required to prepare consolidated financial statements as the ultimate parent company prepares publicly available consolidated financial statements in accordance with IFRS.

The preparation of the financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities including pension assets and liabilities.

2. *Summary of significant accounting policies (continued)*

2.2 Disclosure exemption

The company has adopted the disclosure exemption as allowed by FRS 101. The exemption covers some (but not all) disclosures in the following standards:

IFRS 2 - For share-based payment (SBP) arrangements in a subsidiary's financial statements, using equity instruments of another company entity; and in an ultimate parent's separate financial statements, using its own equity instruments.

IFRS 7 - Disclosure of financial instruments.

IFRS 13 - Disclosure relating to fair value measurement.

IAS 1 - Information on management capital.

IAS 1 - From the requirement to present a balance sheet as at the beginning of the preceding period if there is a prior year adjustment.

IAS 7 - A cash flow statement is not required.

IAS 8 - Disclosure in respect of new standards and interpretations that have been issued but which are not yet effective.

IAS 24 - Disclosure of key management personnel compensation, and for related party transaction entered into between two or more members of a group (for wholly owned subsidiaries).

Others - The requirement to present comparatives in roll-forward reconciliations, including movements in share capital (IAS 1), PP&E (IAS 16) and intangible assets (IAS 38).

2.3 Going concern

The company's business activities, together with the factors likely to affect its future development and performance, are set out in the Strategic Report on the year on page 3 to 7. The Report also outlines the company's financial risk management policies. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

2.4 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2016 have had a material impact on the company.

2. Summary of significant accounting policies (continued)

2.4 Changes in accounting policy and disclosures (continued)

(b) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the group or parent company, except the following, set out below:

i) IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.
For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different from that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, subject to EU endorsement. The impact of IFRS 9 is being assessed by management. The main impact is likely to arise from the implementation of the expected loss model although full quantification of this impact is still underway.

ii) IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, subject to EU endorsement.

The impact of IFRS 15 is being assessed by management. Implementation of IFRS 15 requires a thorough review of existing contractual arrangements. At present, the directors anticipate there may be some changes in the recognition of royalty income leading to earlier recognition of some income although the amounts involved are relatively immaterial. The transition work in respect of other areas is on-going but has not, as yet, highlighted potentially material adjustments.

iii) IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17
'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 has not yet been assessed.

2. Summary of significant accounting policies (continued)

2.5 Investment in subsidiaries

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). This is also the presentation currency of the company. The financial statements are presented in Great British pounds (GBP), which is the company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except where deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses are presented in the profit and loss account within 'interest payable and similar charges'.

2.7 Fixed assets

i) Intangible fixed assets

The costs to acquire non-producing oil and gas properties or licenses to explore, drill exploratory wells and the costs to evaluate the commercial potential of underlying resources, including related borrowing costs, are initially capitalised as intangible fixed assets. These costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources.

If an area or exploration well is no longer considered commercially viable, the related costs are charged to Exploration expense.

When management determines with reasonable certainty that the intangible asset will be developed, as evidenced by the classification of proved or probable reserves and the appropriate internal and external approvals, the asset is transferred to tangible fixed assets.

Exploration costs not directly related to a specific license are charged to expense as incurred.

ii) Tangible fixed assets

The costs to acquire developed or producing oil and gas properties, and to develop oil and gas properties, including completing geological and geophysical surveys and drilling development wells, and the costs to construct and install development infrastructure, such as wellhead equipment, well platforms, offshore platforms and subsea structures are capitalized within tangible fixed assets.

2. Summary of significant accounting policies (continued)

2.7 Fixed assets (continued)

iii) Depreciation, Depletion and Amortisation

Intangible fixed assets are not subject to depreciation, depletion and amortisation. Once transferred to producing fields within tangible fixed assets and commercial production commences, these costs are depleted on a unit-of-production basis over proved developed reserves, with the exception of property acquisition costs which are depleted over proved reserves.

Capital expenditures are not depleted until assets are substantially completed and ready for their intended use.

Costs to develop oil and gas properties are depleted on a unit-of-production basis over proved developed reserves. A portion of these costs may not be depleted if they relate to undeveloped reserves. Costs related to offshore facilities are depleted over proved and probable reserves.

2.8 Impairment of non-financial assets

Assets that have an indefinite life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Company only holds loans and receivable financial assets at the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise 'debtors' and 'cash' in the balance sheet.

2. Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

2.9.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of other income when the company's right to receive payments is established.

Interest on loans and receivables calculated using effective interest method is recognised in the profit and loss account as part of interest receivable and similar income.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets

The company assesses at the end of each reporting year whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

2. Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit and loss account.

2.12 Stocks

Stocks are stated at the lower of cost and net realizable value. Cost represents the purchase price of spare parts and consumables. Net realisable value is based on estimated selling price, less further costs expected to be incurred to complete or dispose. Provision is made for obsolete, slow-moving or defective items where appropriate.

2.13 Cash

Cash and cash equivalents consist primarily of cash in banks, term deposits, certificate of deposit and all other highly liquid investments at the time of purchase.

2.14 Called up share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Loans and borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

2. Summary of significant accounting policies (continued)

2.17 Current and deferred income tax

Accounting policies relating to petroleum revenue tax and corporation tax payable to the UK government are as follows:

i) Petroleum revenue tax (PRT) is provided for on a unit of production basis over the estimated total production to the final year in which PRT is estimated to be payable. The computation is made separately for each field and is based on estimated future oil and gas prices, exchange rates and cost levels, and assumes that the current estimated profile of future production determined by the Company will be achieved and that the current rules governing PRT will remain unaltered.

ii) The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates the positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

iii) Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax asset are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits

The Company has a defined benefit pension scheme. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. The defined benefit scheme is funded with the assets of the scheme held separately from those of the Company, in a separate trustee administered fund. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

2. Summary of significant accounting policies (continued)

2.18 Employee benefits (continued)

From 9 April 2008, the Company closed the defined benefit pension scheme to new employees and introduced a defined contribution scheme. For the defined contribution scheme the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

2.19 Provisions

Decommissioning costs

The company recognises liabilities for the future decommissioning and restoration of exploration and evaluation assets. These provisions are based on estimated costs, which take into account the anticipated method. Estimated decommissioning costs are provided on a field by field basis and are discounted to present value. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in interest payable. The discounted present value is also capitalised in fixed assets and depreciated on a unit of production basis. These costs are assumed to be eligible for tax relief, based on current tax legislation.

2.20 Turnover

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company's activities, as described below.

Sale of hydrocarbons

Sales of hydrocarbons are recognised when the company has delivered and the title has passed on to the customer.

2.21 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.22 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the year in which the dividends are approved by the company's shareholders or paid in the case of interim dividends.

2. Summary of significant accounting policies (continued)

2.23 Leases

Leases in which a significant portion of the risk and rewards of ownership are retained by the Lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the Lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

2.24 Petroleum over-lifts and under-lifts

The quantities of oil and other hydrocarbons actually lifted may differ from the Company's entitlements. This gives rise to over-lift or under-lift which is accounted for at year-end market value. Under-lift is shown in debtors, over-lift is shown in creditors. The movement in value of under-/over-lift during the financial year is shown in cost of sales.

2.25 Joint arrangements

The Company's exploration, development and production activities are generally conducted in joint arrangements (that are not entities) with other companies. The financial statements reflect the relevant proportions of income, expenditure, assets and liabilities applicable to the Company's interests.

2.26 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

3. Critical accounting estimates and judgements

3.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below

(a) Income taxes

The Company is subject to income taxes in the UK. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.

The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

3. Critical accounting estimates and judgements (continued)

3.1 Critical accounting estimates and assumptions (continued)

(b) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions.

3.2 Critical judgements in applying the entity's accounting policies

Effect of changing field estimates

Changes in reserves estimates, estimated decommissioning costs, price and exchange rate assumptions and other variables used in unit of production calculations are accounted for prospectively over the remaining commercially recoverable reserves of the field.

4. Recently announced accounting standards

Recently announced accounting standards and interpretation are not presented as an exemption allowed under FRS101.

4.1 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2016 have had a material impact on the company.

(b) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the group or parent company, except the following, set out below:

4. Recently announced accounting standards (continued)

4.1 Changes in accounting policy and disclosures (continued)

(b) New standards, amendments and interpretations not yet adopted (continued)

i) IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.
For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different from that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, subject to EU endorsement. The impact of IFRS 9 is being assessed by management. The main impact is likely to arise from the implementation of the expected loss model although full quantification of this impact is still underway.

ii) IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, subject to EU endorsement.

The impact of IFRS 15 is being assessed by management. Implementation of IFRS 15 requires a thorough review of existing contractual arrangements. At present, the directors anticipate there may be some changes in the recognition of royalty income leading to earlier recognition of some income although the amounts involved are relatively immaterial. The transition work in respect of other areas is on-going but has not, as yet, highlighted potentially material adjustments.

iii) IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17
'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 has not yet been assessed.

5. Turnover

The Company's activities arise predominantly from a single class of business being oil and gas exploration and production. All production activities originate in the United Kingdom. The geographical analysis by destination is as follows:

	2016 £000	2015 £000
United Kingdom	**247,742**	314,388
Europe	**208,658**	158,562
Other	**242,944**	301,557
	699,344	774,507

6. Cost of sales

	2016 £000	2015 £000
Operating costs	**73,631**	105,400
Depreciation, depletion and amortisation	**245,584**	191,907
Exploration and pre-development costs written off	**1,770**	7,202
(Increase)/decrease in net underlift balance	**(7,626)**	1,903
	313,359	306,412

7. Administrative expenses

	2016 £000	2015 £000
Administration expenses include:		
Office properties lease rentals	**413**	408
The analysis of the auditors' remuneration in respect of the Company is as follows:		
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	**146**	141
Fees payable to the Company's auditors for the audit of the associated pension scheme	**19**	-
Fees payable to the Company's auditors for Nexen audit	**31**	5

Administrative expenses are stated net of recharges to parent and affiliated companies of £0.5 million (2015: £2.7 million).

8. Interest receivable and similar income

	2016 £000	2015 £000
Bank and other interest receivable and similar income	**1,484**	1,350
	1,484	1,350

9. Interest payable and similar expenses

	2016 £000	2015 £000
Interest on bank loans and overdrafts	**1,505**	(86)
Interest on inter-company loans	**9,063**	8,942
Unwinding of discount on decommissioning	**9,093**	7,348
Net finance expense of pension scheme	**470**	397
Exchange (gains)	**(33,156)**	(12,553)
	(13,025)	4,048

10. Employee information

Profit before taxation is stated after charging staff costs (including directors' emoluments) as follows:

	2016 £000	2015 £000
Wages and salaries	**3,512**	5,352
Social security costs	**1,245**	1,309
Other pension costs:		
- defined benefit scheme	**2,061**	2,266
- defined contribution scheme	**138**	141
	6,956	9,068

Of the above costs, £0.5 million was either recharged to other Suncor group companies or capitalised within fixed assets as part of the cost of the Company's oil & gas properties (2015: £2.7 million).

The average monthly number of persons employed by the Company during the year (including executive directors) was as follows:

	2016 No.	2015 No.
The average monthly number of persons employed by the Company during the year (including executive directors) was as follows:		
Technical services	**18**	20
Management and corporate services	**7**	7
Finance and business services	**6**	9
	31	36

10. Employee information (continued)

Details of directors' remuneration are as follows:

	2016 £000	2015 £000
Aggregate emoluments	**1,642**	1,362

	No.	No.
The number of directors who are members of a defined benefit pension scheme	**4**	5

The directors' remuneration shown above included:

	2016 £000	2015 £000
Highest paid director		
Remuneration for services	**401**	350
Exercised share options	**398**	76
	799	426

During the year, the Company made contributions to the defined benefit pension scheme on behalf of four directors (2015: five) who were members of the scheme.

The highest paid director had accrued entitlements under the scheme as follows:

	2016 £000	2015 £000
Accrued pension	**-**	33

Two directors exercised stock options in the ultimate parent company during 2016 (2015: three).

11. Tax on profit

	2016	**2015**
	£000	**£000**
Current tax:		
Current tax on profits of the year	**206,640**	261,198
Adjustment in respect of previous years	**(103)**	2,147
Total current tax	**206,537**	263,345
Deferred tax:		
Current year	**(65,671)**	(55,709)
Adjustment in respect of previous years	**362**	(2,138)
Effect of changes in tax rates	**(59,175)**	(91,037)
Total deferred tax	**(124,484)**	(148,884)
Tax on profit	**82,053**	114,461

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2016	**2015**
	£000	**£000**
Profit before taxation	**374,171**	446,036
Tax on profit before taxation at standard UK tax rate of 40.00% (2015: 50.00%)	**149,668**	223,018
Effects of:		
Write-up of investment in subsidiary	**-**	(414)
Expenses not deductible for tax purposes	**55**	15
Income not taxable	**(289)**	-
Adjustments in respect of previous years	**259**	8
Effect of income taxed at 20.00%	**(6,465)**	(9,225)
Field / investment allowance	**(2,899)**	9,313
Non-qualifying depreciation	**-**	(7,594)
Impact of rate change	**(58,270)**	(96,625)
Share options	**(6)**	-
Effects of group relief/other reliefs	**-**	(4,035)
Total tax for the year	**82,053**	114,461

12. Dividends paid

During the year the Company paid interim and final dividends totalling £260 million, representing £22.56 per ordinary share, to its immediate parent company, Suncor Energy UK Holdings Limited (2015: £320 million, £27.77 per ordinary share). No further dividends were proposed (2015: nil).

13. Fixed assets

	2016 £000	2015 £000
Intangible assets – oil and gas exploration assets		
At beginning of year	**24,358**	24,712
Additions	**44,220**	5,421
Amortization	**(36,487)**	-
Exploration costs written off	**234**	(5,775)
At end of year	**32,325**	24,358

Tangible assets	Producing fields £000	Developing fields £000	Decommissioning asset £000	Total £000
Cost:				
At beginning of year	1,817,735	64,606	180,559	2,062,900
Additions/(disposal)	46,381	-	(2,260)	44,121
At end of year	**1,864,116**	**64,606**	**178,299**	**2,107,021**
Accumulated Depreciation:				
At beginning of year	955,994	-	84,391	1,040,385
Charge	170,501	-	38,596	209,097
At end of year	**1,126,495**	-	**122,987**	**1,249,482**
Net book value:				
At beginning of year	861,741	64,606	96,168	1,022,515
At end of year	**737,621**	**64,606**	**55,312**	**857,539**

14. Investment

	2016 £000	2015 £000
Investment in subsidiary undertaking	**136,332**	135,610

Subsidiary undertaking	Principal activity	Holding	Incorporated
Petro-Canada Energy North Sea Limited	The company has no trading activities and only generates income from a loan to its parent company.	100%	Great Britain

The movements in the Company's investment during the year were as follows:

	2016 £000	2015 £000
At beginning of year	**135,610**	134,781
Reversal of impairment	**722**	829
At end of year	**136,332**	135,610

The reversal of impairment in 2016 and 2015 reflect the movement in the recoverable amount of the Company's investment in Petro-Canada Energy North Sea Limited. The directors believe that the carrying value of the investment is supported by its underlying net assets.

15. Stocks

	2016 £000	2015 £000
Materials and supplies	**15,717**	21,428

The stock value is made up of £11.0 million (2015: £16.1 million) of inventory for current and future development wells for GEAD and Buzzard and £4.7 million (2015: £5.3 million) for pipeline stock for Buzzard and GEAD.

During 2016, a total of £1.6 million surplus drilling inventory was recognised as an expense. No write downs or write backs were recorded.

16. Debtors

	2016 £000	2015 £000
Trade debtors for petroleum sales	**25**	126
Amounts owed by other group undertakings		
Intercompany current accounts	**55,024**	30,340
Internal clearing accounts	**176,943**	133,790
Short term loan to Suncor Energy UK Holdings Limited	**100,000**	100,000
Underlift	**32,996**	20,904
Other debtors	**871**	2,130
Prepayments and accrued income	**33,700**	8,568
	399,559	295,858

To optimise the use of liquid funds, the Company's cash is held within a cash pooling system which is administered by another company within the group. Interest at normal market rates is payable or receivable on these balances but there are no set repayment terms.

Intercompany current accounts under amounts owed by other group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The short term loan to Suncor Energy UK Holdings Limited is repayable on demand.

17. Creditors: amounts falling due within one year

	2016 £000	2015 £000
Amounts due to parent and other group companies	**81,611**	44,785
Corporation tax	**77,788**	67,191
Other creditors	**297**	365
Accruals and deferred income	**25,446**	45,029
Loan from Suncor Energy UK Holdings Ltd (Note 18)	**51,748**	51,748
	236,890	209,118

Amounts due to parent and other group companies are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

18. Creditors: amounts falling due after more than one year

	2016 £000	2015 £000
Loan from Suncor Energy UK Holdings Ltd	**258,740**	258,740
Due within one year	**(51,748)**	(51,748)
	206,992	206,992
The above borrowings are repayable as follows:		
Between one and two years	**51,748**	51,748
Between two and five years	**155,244**	155,244
	206,992	206,992

In December 2014 the company received a loan from its parent company Suncor Energy UK Holdings Limited to the value of £258.7m. Loan interest is calculated at 6 month Libor + 2.75%, the loan and interest is repayable in full by November 2019.

19. Provisions for liabilities

	2016 £000	2015 £000
Deferred UK corporation tax	**181,225**	305,758
Decommissioning costs	**215,087**	208,254
	396,312	514,012
Add back impact of pension deficit (Note 23)	**(10,014)**	(6,880)
	386,298	507,132

19. Provisions for liabilities (continued)

Deferred corporation tax

The deferred UK corporation tax liability reflects the following timing differences:

	2016 £000	2015 £000
Fixed assets	**264,993**	409,655
Decommissioning provisions	**(86,035)**	(104,127)
Pension liability	**(10,014)**	(6,880)
Other timing differences	**360**	450
Field/investment allowances	**(2,512)**	(8,285)
Stock	**4,419**	8,065
	171,211	298,878

The movement on deferred UK corporation tax comprises:

	2016 £000	2015 £000
Provision at start of year	**298,878**	447,389
Adjustment in respect of prior years	**362**	(2,138)
Deferred tax charge to income statement for the year	**(124,847)**	(146,746)
Deferred tax charge in other comprehensive income for the year	**(3,182)**	373
End of year	**171,211**	298,878

The Finance Act 2016 reduced the rate of supplementary charge from 20% to 10% with effect from 1 January 2016. As this change had not been substantively enacted at the Balance Sheet date, the impact of the rate change has not been included in the deferred tax provision. The restatement of the Company's deferred tax liability as at 31 December 2015 as a result of the change in rate of supplementary charge will result in a reduction in the deferred tax liability of approximately £57.3m.

19. Provisions for liabilities (continued)

Decommissioning costs

	2016 £000	2015 £000
The movement on decommissioning costs comprises:		
At beginning of year	**208,254**	184,026
(Deduction)/Additions to decommissioning	**(2,260)**	16,880
Unwinding of discount	**9,093**	7,348
End of year	**215,087**	208,254

Decommissioning estimates are based on the latest technical assessments available of the costs involved and the date at which they will be incurred. Decommissioning is expected to occur around 2034.

20. Called up share capital

	2016 £000	2015 £000
Authorised		
15,000,000 ordinary shares of £1 each (2015: 15,000,000)	**15,000**	15,000
Called up, allotted and payable on demand:		
11,523,415 ordinary share of £1 each (2015: 11,523,415)	**11,523**	11,523

21. Reconciliation of movements in shareholders' funds

	2016 £000	2015 £000
Total comprehensive income for the financial year	**283,186**	328,505
Dividends paid	**(260,000)**	(320,000)
Net increase to shareholders' funds	**23,186**	8,505
Opening shareholders' funds	**563,171**	554,666
Closing shareholders' funds	**586,357**	563,171

22. Financial commitments

Capital Commitments

	2016 £000	2015 £000
Commitments for the acquisition of intangible and tangible fixed assets	**2,133**	51,796

Capital commitments predominately relate to the ongoing development of the Golden Eagle Area, Buzzard and Rosebank.

Annual commitments under non-cancellable operating leases are as follows:

	2016		2015	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Expiry date:				
Within one year	**48**	-	290	-
Between two and five years	-	-	48	-
After five years	-	-	-	-
	48	-	338	-

23. Pension arrangements

The Company operates a defined benefit pension scheme in the UK, the assets of which are held in a separate, trustee administered fund. This scheme was closed to new employees on 9 April 2008 and a defined contribution scheme was introduced.

Members of the defined benefit scheme continue to accrue benefits based on their final salary. The last triennial valuation of the defined benefit scheme was carried out at 31 December 2013. The results of this have been used by an independent qualified actuary to calculate the liabilities at 31 December 2016 in accordance with IAS 19. The results of these calculations, and the principal assumptions used, are set out below.

	2016	2015	2014
Rate of increase in salaries	**4.10%**	**3.80%**	3.65%
Rate of increase in pensions in payment	**3.40%**	**3.20%**	3.05%
Discount rate	**2.70%**	**3.70%**	3.55%
Inflation assumption - RPI	**3.60%**	**3.30%**	3.15%
Inflation assumption - CPI	**2.60%**	**2.30%**	2.15%

23. Pension arrangements (continued)

The mortality assumptions were as follows:

	2016		2015	
	Male	**Female**	**Male**	**Female**
Member aged 65 (current life expectancy)	23.3	24.4	24.0	25.3
Member aged 45 (life expectancy at age 65)	24.8	26.2	25.7	27.1

The fair value of the assets in the scheme, the present value of the liabilities in the scheme at the balance sheet date were:

	2016	**2015**	**2014**
	£000	**£000**	**£000**
Equities	**53,654**	43,416	42,923
Bonds	**46,568**	40,011	41,206
Cash	**1,012**	1,703	1,717
Total fair value of assets	**101,234**	85,130	85,846
Present value of scheme liabilities	**(126,169)**	(98,893)	(98,174)
Scheme deficit	**(24,935)**	(13,763)	(12,328)
Related deferred tax asset	**10,014**	6,880	7,643
Net pension deficit	**(14,921)**	(6,883)	(4,685)

The fair value of the scheme assets at 31 December 2016 was £101.2m (2015: £85.1m). The present value of the scheme of liabilities at 31 December 2016 was £126.2m (2015: £98.9m). The pre-tax deficit at 31 December 2016 was £24.9m (2015: deficit of £13.8m).

The actual return on assets over the year to 31 December 2016 was £19.1m (2015: £0.5m).

The actuarial valuation at 31 December 2016 showed an increase in the pre-tax deficit from £13.8m to £24.9m.

The company is required to contribute 48.5% (2015: 48.5%) of pensionable earnings plus a lump sum of £0.2m per month until 31 December 2023.

23. Pension arrangements (continued)

Reconciliation of present value of scheme liabilities	2016 £000	2015 £000
1 January	**98,893**	98,174
Service cost	**649**	607
Contributions by employees	**20**	36
Interest cost	**3,566**	3,424
Benefits paid	**(5,053)**	(3,474)
Experience gain on scheme liabilities	**-**	-
Loss from changes in the assumptions for value of scheme liabilities	**28,094**	126
Loss from changes in the demographics for value of scheme liabilities	**-**	-
31 December	**126,169**	98,893

Reconciliation of fair value of scheme assets	2016 £000	2015 £000
1 January	**85,130**	85,846
Interest on scheme assets	**3,096**	3,027
Actuarial gains/(losses)	**15,980**	(2,571)
Contributions by employer	**2,061**	2,266
Contributions by employee	**20**	36
Benefits paid	**(5,053)**	(3,474)
31 December	**101,234**	85,130

The scheme is subject to the statutory funding objective requirements set up by the Pensions Act 2004. The objective requires a defined benefit pension scheme to be funded to at least the level of its technical provisions (which are an actuarial estimate of the assets needed to provide for benefits already accrued under the plan at that time) and regular valuations must be obtained by the trustees to check whether the statutory funding objective is met.

The scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees are required to act in the best interests of the scheme's employees.

23. Pension arrangements (continued)

Risks

The Company's statement of financial position is exposed to movements in the defined benefit scheme's net deficit. In particular, the statement of financial position could be sensitive to reasonably likely movements in the scheme's principal assumptions. The Company is exposed to a number of risks arising from the defined benefit scheme as follows:

Asset volatility

Falls in asset values which are not offset by a rise in the discount rate used to value liabilities.

Yield/discount rate

A decrease in the corporate bond yields would increase the scheme's liabilities.

Inflation

An increase in inflation expectations in isolation would be expected to increase the cost of future benefit accrual and scheme liabilities.

Life expectancy

Increases in life expectancy beyond those currently assumed will lead to an increase in scheme liabilities as benefits would be paid for longer.

Sensitivities

Future changes that could reasonably be expected to affect the above assumptions have been estimated as follows:

- Reduction in discount rate of 0.25% would increase the scheme liabilities by £7.3m
- Increase in inflation rates (RPI, CPI, Salary) of 0.25% would increase scheme liabilities by £6.2m
- Increase in life expectancy of one year would increase the scheme liabilities by £3.0m.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of financial position.

The Company and Trustees have agreed an investment strategy where 53% of the Assets are invested in equity type assets, 46% invested in bond type assets and 1% in cash. The scheme actuary has confirmed that this asset allocation is consistent with the liabilities of the scheme. The Company and Trustees monitor the assets and liabilities on a regular basis.

23. Pension arrangements (continued)

At the 31st December 2013 triennial valuation the Trustees of the Company agreed that they will aim to eliminate the pension scheme deficit over the next 10 years. Funding levels are monitored on an annual basis and the current agreed Company contribution rate is 48.5% of pensionable salaries. In addition the Company is paying £0.2m per month until 31st December 2023 to eliminate the deficit.

- The expected contributions to the scheme for the year ending 31st December 2016 are £2.1m.
- The weighted average duration of the pension obligation is 22 years.

Defined contribution scheme

The pension charge for the defined contribution scheme in 2016 amounted to £0.1m (2015: £0.1m).

24. Ultimate parent company and controlling party

The immediate parent undertaking is Suncor Energy UK Holdings Ltd. The ultimate parent company and controlling entity at 31 December 2016 was Suncor Energy Inc., a company incorporated in Canada. As the company is a wholly owned subsidiary of Suncor Energy Inc, the Company has taken advantage of the exemption available under paragraph 8 of FRS101 which allows exemption from disclosure of related party transactions with other group companies. The consolidated financial statements of the Suncor Group, the smallest and largest to include the financial statements of the Company, are available from Suncor Energy Inc., at 150 – 6th Avenue SW, Calgary, Alberta, Canada T2P 3ES.